REVIEW OF VA INSURANCE PROGRAMS FOR VETERANS

HEARING

BEFORE THE

SUBCOMMITTEE ON
COMPENSATION, PENSION, AND INSURANCE

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

OCTOBER 4, 1983

Printed for the use of the Committee on Veterans' Affairs

Serial No. 98-33

U.S. GOVERNMENT PRINTING OFFICE
27-367 O WASHINGTON : 1983

H761-4

COMMITTEE ON VETERANS' AFFAIRS

G. V. (SONNY) MONTGOMERY, Mississippi, *Chairman*

DON EDWARDS, California
BOB EDGAR, Pennsylvania
SAM B. HALL, JR., Texas
DOUGLAS APPLEGATE, Ohio
MARVIN LEATH, Texas
RICHARD C. SHELBY, Alabama
DAN MICA, Florida
THOMAS A. DASCHLE, South Dakota
WAYNE DOWDY, Mississippi
MATTHEW G. MARTINEZ, California
LANE EVANS, Illinois
MARCY KAPTUR, Ohio
FRANK HARRISON, Pennsylvania
ALAN B. MOLLOHAN, West Virginia
TIMOTHY J. PENNY, Minnesota
HARLEY O. STAGGERS, JR., West Virginia
J. ROY ROWLAND, Georgia
JIM SLATTERY, Kansas
JOHN BRYANT, Texas
BILL RICHARDSON, New Mexico
JOHN PAUL HAMMERSCHMIDT, Arkansas
CHALMERS P. WYLIE, Ohio
ELWOOD HILLIS, Indiana
GERALD B. H. SOLOMON, New York
BOB McEWEN, Ohio
CHRISTOPHER H. SMITH, New Jersey
DENNY SMITH, Oregon
PHIL GRAMM, Texas
DAN BURTON, Indiana
DON SUNDQUIST, Tennessee
MICHAEL BILIRAKIS, Florida
NANCY LEE JOHNSON, Connecticut

MACK FLEMING, *Chief Counsel and Staff Director*

SUBCOMMITTEE ON COMPENSATION, PENSION, AND INSURANCE

DOUGLAS APPLEGATE, Ohio, *Chairman*

SAM B. HALL, JR., Texas
THOMAS A. DASCHLE, South Dakota
MATTHEW G. MARTINEZ, California
G. V. MONTGOMERY, Mississippi
MARVIN LEATH, Texas
RICHARD C. SHELBY, Alabama
DAN MICA, Florida
WAYNE DOWDY, Mississippi
BOB McEWEN, Ohio
CHALMERS P. WYLIE, Ohio
JOHN PAUL HAMMERSCHMIDT, Arkansas
DENNY SMITH, Oregon
DAN BURTON, Indiana

CONTENTS

OCTOBER 4, 1983

Page

Review of VA Insurance Programs for Veterans 1

STATEMENTS OF COMMITTEE MEMBERS

Chairman Applegate 1
Hon. G. V. (Sonny) Montgomery 7
Hon. Bob McEwen 70

WITNESSES

Beilke, Max J., legislative counsel, National Association for Uniformed Services 12
Prepared statement of Mr. Beilke 71
Edmiston, Stephen L., associate deputy national legislative director, Disabled American Veterans 17
Prepared statement of Mr. Edmiston 78
Johnson, Richard W., Jr., national legislative director, Non-Commissioned Officers Association 12
Prepared statement of Mr. Johnson 70
Magill, James N., special assistant, national legislative service, Veterans of Foreign Wars 15
Prepared statement of Mr. Magill 75
Melidosian, S. W., Director, VA Insurance Center, Philadelphia, Pa 2
Prepared statement of Mr. Melidosian 21
Moran, Bob, associate deputy national legislative director, Paralyzed Veterans of America 16
Prepared statement of Mr. Moran 76
Wanamaker, Cmdr. John F., deputy director, legislative affairs, Retired Officers Association 13
Prepared statement of Commander Wanamaker 72

MATERIAL SUBMITTED FOR THE RECORD

Statements:
Hon. Chalmers P. Wylie 74
Hon. John Paul Hammerschmidt 74
Written committee questions and their responses:
Hon. Bob McEwen to S. W. Melidosian 73

REVIEW OF VA INSURANCE PROGRAMS FOR VETERANS

TUESDAY, OCTOBER 4, 1983

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE, COMMITTEE ON VETERANS' AFFAIRS,

Washington, D.C.

The subcommittee met, pursuant to notice, at 9:03 a.m., in room 334, Cannon House Office Building, Hon. Douglas Applegate (chairman of the subcommittee) presiding.

Present: Representatives Applegate, Montgomery (ex officio), Hall, and McEwen.

OPENING STATEMENT OF CHAIRMAN APPLEGATE

Mr. APPLEGATE. Good morning. The subcommittee will come to order.

This morning we are going to hold an oversight hearing on the insurance programs of the Veterans' Administration. This year we are trying to conduct our oversight hearings in late summer or early fall so that we can concentrate on the budget and legislative issues during the first part of each session. Just 2 weeks ago we looked at compensation and pension programs and today we are going to conclude our oversight for this session.

I wish all of the Veterans' Administration's programs operated as smoothly as the insurance activity. It has been one that has been given a lot of high marks. Of course, we don't have that many legislative changes in insurance, whereas we always seem to have a lot of them that are there to change compensation and pension laws. But, be that as it may, we are pleased that Mr. Melidosian and his people are doing such an outstanding job for all the insurance policyholders and for our Government. Yet, the reason for oversight is to allow input from individuals and the various veterans' organizations for evaluation or reevaluation and the possibility of legislation at a future date where improvements can be made.

Mr. McEwen is not here as yet, but will be on his way. When he does arrive, we will have him to make some comments.

What we will do this morning, after we are through listening to Mr. Melidosian, we do have six of the veterans' organizations and will group them into three panels and have them come and sit at the desk and give their testimony.

Our first witness will be Mr. S. W. Melidosian, the Director of the VA Regional Office and Insurance Center in Philadelphia, Pa.

Mr. Melidosian has been in charge of this program for a number of years and it is doing well under his stewardship. In addition to running the insurance program, he has one of the finest and largest regional offices in the system. His office processes the annual income questionnaires for the pension program and for parents receiving dependency and indemnity compensation. I understand that this year he will have to handle about 2 million income reports. I know that he and his people will do their usual fine job.

Mr. Melidosian, if you would please come to the front desk there. I note that you do have a long statement. You, of course, may proceed as you see fit. You may summarize, as you wish, and if we do have any questions, we will ask. But I think that your statement is pretty well indepth and very technical and may well be all that you will need. But you may proceed.

STATEMENT OF S. W. MELIDOSIAN, DIRECTOR, VETERANS' ADMINISTRATION REGIONAL OFFICE AND INSURANCE CENTER, PHILADELPHIA, PA., ACCOMPANIED BY ROBERT CAREY, ASSISTANT DIRECTOR FOR INSURANCE; AND PAUL KOONS, CHIEF, PROGRAM MANAGEMENT DIVISION

Mr. MELIDOSIAN. Thank you, Mr. Chairman. Good morning.

We are most appreciative of your generous remarks regarding our office and I shall carry them back to the 1,000 employees we have. It is certainly most meaningful to them and I sincerely appreciate it.

I should first like to accept your invitation to mention some of the staff who are accompanying me today, from both the field station in Philadelphia and our central office.

The gentleman to my immediate left, who has accompanied me previously, is Mr. Carey, the Assistant Director of the insurance program at the Regional Office and Insurance Center, and the gentleman on my right is Mr. Paul Koons, the Chief of the Insurance Program Management Division of the Regional Office and Insurance Center.

The gentlemen who accompanied me at the last hearing is Mr. Steve Wurtz, who is Chief of the Standards and Evaluation Section; our Chief of Actuarial Staff, Mr. Melvyn Berman. David Walls, who is the Field Director of the Eastern Region, Department of Veterans' Benefits is accompanying us. Also, two members of the staff of the general counsel, both of whom have accompanied us many times and participated extensively in the casting of legislation and regulations, Mr. Ed Lukey and Mr. Donald Zeglin.

With that, I would be most happy to summarize, as you suggested, the extensive statement we have submitted.

One of the most significant changes we have made recently—an administrative change, and I think somewhat of a landmark—was the change that made all U.S. Government life insurance policies, commonly referred to as World War I type insurance, on a premium-paying basis as being paid up on January 1 of this year. This decision was based on our evaluations of the current reserves and

knowledge that the reserves are sufficient together with both future mortality savings and the interest earnings on the funds to meet all future liabilities or the payments for this program.

USGLI premiums were based on the American experience table, which has been discussed many times at these hearings, with the interest value set at 3½ percent. The table is somewhat obsolete in terms of mortality savings these days, and our reserves deposited in Treasury paper is significantly more than 3½ percent and combined they have provided the resources that allowed us to have these policies paid up.

This has been a beneficial action for the insureds, allowing them to leave a premium-paying status and not having a concern for that, and also having administrative savings for us in not processing premiums monthly or semiannually, whatever the case may be, and to resolve the matter once and for all in the administration of that program for some 23,000 veterans who were in a premium-paying status. We have now achieved that.

The next area that we are devoting our attention to now is that of term insurance, which has been a subject of many discussions here. Term insurance is designed to provide maximum coverage when it is needed most. It is commonly needed during the family formation period as a good example. We have also tried to cite over a period of time that term insurance should be referred to as temporary insurance or single-purpose insurance.

In the last few years, there has been a marked change in the attitude of the general public toward term insurance, as more individuals have become aware of the purpose and the value and the type of coverage that is provided by it. This awareness is stimulated by the writings of numerous consumer advocates concerning the advantages of term insurance, and we believe that many policyholders have voluntarily discontinued this coverage and have done so having made a sound financial decision for themselves and their survivors.

Those policyholders who want to retain permanent plan protection may convert to either ordinary life, modified life at age 65, or modified life at age 70. Since premium rates for permanent plans are fixed, those who convert avoid the periodic premium increases which have plagued policyholders with term insurance which increases at 5-year intervals.

One of the topics which this committee has asked us to address is the term-capping proposal which I mentioned in last year's oversight hearing. By term-capping, we are referring to the freezing of term premiums at a fixed rate for those who elect to retain their term coverage indefinitely. Our initial actuarial analysis indicates that we should be able to cap a term policyholder's premium at the beginning of the first 5-year renewal period beyond age 70. For example, a policyholder who renewed a term policy in October 1980 at age 67 would have the premium capped in October 1985, at the term premium rate for a policy renewed at age 72.

Premiums for policyholders who have already renewed their policies at ages 70 through 74 would be capped at the next renewal at the age 75 rate. For policyholders who have renewed their policies beyond age 75, we would immediately roll back these premiums to the age of 75. Our actuarial staff is currently studying the feasibil-

ity of using some of the term reserves to fund the capping of premiums at renewal ages below age 70. I should say that the first outline I went through was phase one, to establish a sound base. Our objective is to try to reach phase two, and be able to cap premiums under the renewal age of 70.

If premiums are capped for term policyholders, there will, of course, be a decline in the annual dividends. We hope to be in a position to present the Administrator of Veterans' Affairs with a term-capping proposal early in 1984.

Another administrative change that we have initiated—we have the authority to proceed with the first phase of this, also—is in the policy loan interest rate. The current rate which was set in July 1981 is 11 percent. In establishing this rate, the Administrator of Veterans' Affairs proposed a formula which was tied to the rate of return of long-term U.S. Treasury securities. A specific indicator for 10-year constant maturities, which is published by the President's Council of Economic Advisers, however, was chosen. Whenever there is a plus or minus of 2-percent fluctuation in that rate, a change in the loan interest rate would be considered. As a result of the recent downturn in the indicator, the VA has initiated a regulatory change which would reduce the policy loan interest rate from 11 to 8 percent.

I would also like to report on the impact of legislation initiated by this committee and enacted as part of Public Law 97-66. One of the provisions of the Veterans Disability Compensation Housing and Memorial Benefits Amendments of 1981 permits a lump sum settlement of national service life, U.S. Government life insurance, where no settlement option has been selected by the insured. Under prior legislation, the beneficiary of an insured who failed to select a settlement option was restricted to settlement in monthly installments. This sometimes resulted in financial hardship, and probably would have resulted in hardship in the estimated 186,000 future death settlement cases where the insured has not made an option selection.

As a result of Public Law 97-66, however, these beneficiaries may now select the settlement option which best suits their present financial needs. I am pleased to report that we are currently paying over 97 percent of all death awards in a lump sum payment. This has also a very substantial administrative cost savings to us.

Another important provision of Public Law 97-66 authorizes the automatic increase of maximum coverage under the service group life insurance program from $20,000 to $35,000 of coverage, effective December 1, 1981. In addition to new service persons, the automatic increase applied to all individuals already having service group life insurance coverage in force on December 1, 1981—with the exception of the retired reservists. The retired reservists including those with less than the previous maximum amount of $20,000, were permitted until December 1, 1982 to apply for the additional coverage of $35,000. Of the 33,312 retired reservists who were mailed applications for the increased coverage, 19,127, or 57 percent, applied for the additional coverage, and 97 percent of the applicants asked for the maximum coverage of $35,000.

In addition to these important changes in the service group life insurance program, the administrator also authorized a major administrative change by reducing the premiums for the active duty and Ready Reserve members of the uniformed services by 23 percent. The original premium rate for service group life coverage was set at 20 cents per month per thousand. Favorable mortality experience and increased contingency reserve earnings permitted a reduction to 17 cents per thousand per month in 1972, and again in 1978 to 15 cents per thousand per month. Effective July 1, 1982, we were able to further reduce premiums from 15 cents to 11.6 cents per thousand per month because of continued favorable mortality experience and contingency reserve earnings. We are now looking at the feasibility of another premium reduction and hope it can be effective early in 1984.

Based on the new premium rate and the maximum coverage limits, we are now able to provide a young member of the Armed Forces with an immediate estate equal to $35,000 for $4.06 each month. This type of coverage, of course, is particularly helpful to younger folks, who have the heavy financial burdens of family obligations, and is provided at the lowest cost to them.

Another area which we have been asked to comment upon has been the insurance automatic data processing systems, which we have referred to as being in a redesign period. The redesign was precipitated by the fact that the existing system, which was designed in the early 1960's, no longer had the flexibility necessary to implement the numerous administrative changes and adopt modern technology available to improve service to the policyholder and the beneficiary. The redesign involves replacing what is referred to as "second generation" computer systems with fixed master records and optical character recognition inputs and changing into a more flexible data base with an on-line system, which means we can access the master records through video display terminals.

The first phase of this project was completed in June of this year with the introduction of the insurance inquiry system, which enabled us to instantaneously call up an insured's record on a video display terminal. Previously we had to request this as a printed document from a computer system, which took 24 hours, or which could be referred to as an overnight system. During the next phase of the project, which will extend through fiscal year 1987, we will be developing a data entry capability which will allow us to update the insured's records through the same video display terminals. Once this project is completed, we will have a system that is considerably more flexible, reduce administrative costs, and allow us to provide better service.

We were happy recently to have had the opportunity to demonstrate the insurance inquiry system to Mr. Arnold Moon and Mrs. Arlene Burnett of the committee staff. We look forward to completing the next phase of the redesign project.

I would now like to turn our attention in this summary to the issue of sex discrimination in insurance. In view of the Supreme Court's decision on the *Manhart* case and several congressional initiatives which would eliminate such discrimination, it appears to be an opportune time to review the agency's stand on the issue.

There are no premium rates for any VA-administered or supervised insurance premium which are based on sex-differentiated tables. Beneficiary payments under the service group life and veterans group life are limited to lump sum or 36 months. There is, therefore, no sex differentiation. However, sex-differentiated mortality tables are used for certain annuity payments to the beneficiaries in both the U.S. Government Life and the National Service Life. These tables provide for lower monthly payments to the female annuitant.

Although the VA currently pays annuities under all of the programs to 198,000 individuals, only 9,400 are receiving annuities based on the tables which differentiate between the male and female recipient. Of the latter group, 1,360 are women. We estimate the total cost to increase the payments to the female annuitant to the same amount paid to a male annuitant at the same age would be minimal, amounting to approximately $60,000 a year. Accordingly, we intend to initiate a legislative proposal which would eliminate sex differentiation in Government life insurance programs for annuity payments.

Finally, I would like to share with the committee the results of two studies of the service disabled veterans insurance program that have been recently completed. As the committee is aware, the program provides standard rate life insurance to veterans with service-connected disability. We undertook the studies because this is the only program the VA administers that is open to new issue and which is currently not covering all of its own expenses. Since there are no reserves, the program is operated on a pay-as-you-go basis and relies on annual appropriations to meet the program costs. For example, the amount of $6,400,000 was appropriated this year to deal with those costs. If no further policies were, in fact, issued, the future unfunded liability for the policies in force would total approximately $589 million. However, if we continue to issue the projected average rate of 6,000 policies per month for the next 10 years, the future unfunded liability will total approximately $772 million.

In addition to the appropriation, we estimate the administrative costs in the program will average one-half million dollars per year throughout each fiscal year to 1986.

Our first study, which was completed in 1982, developed a profile of the new applicants and discussed some of these characteristics. In looking at age first, the approved applicants were found to be fairly uniform in the range from 19 to 53 years of age and possessing no other discernable pattern. Sixty percent of these approved applications were people separated from military service after 1978. Approximately one-half of all approved applicants received disability ratings of 20 percent or less, while 15 percent had ratings of 80 percent or above.

Our second study, which concerns a death analysis, was completed in August of this year. It developed a profile using the information derived from the death cases. The study focused on the disability rating of these policyholders at death and the percentage of those policyholders with disability waivers of premiums. The principal finding of that was that 65 percent of the service-disabled veterans insurance policyholders had a disability waiver of premiums

in force at death. Of this group, almost 70 percent had the waiver from the effective date of the policy and, therefore, had not made a contribution of premiums. Those veterans who did not have their premiums waived from the policy effective date went on waiver approximately 8 years after the date of issue.

In total, 22 percent of all policyholders of the program had their premiums waived, and this contributes significantly to the fact that the program's income is insufficent to meet its expenses.

With the entire group that is here, we will, of course, be happy to provide the committee with the details of our findings in both of these studies for your committee.

Mr. Chairman, this concludes my remarks as a recap of the entire testimony that was submitted and received by the committee. I thank you, sir.

[The statement of S. W. Melidosian appears at p. 21.]

Mr. APPLEGATE. Thank you very much, Mr. Melidosian, for a very, very in-depth statement. It was very well stated and it will be of tremendous importance to us.

Just to be very brief, I would say that I am pleased that you are following through and continuing to look at the idea of putting a cap on the term policies for the World War II veterans. I think that is very important and I certainly would urge you to pursue it as vigorously as you can. Because of the high cost of premiums for this type of policy, it does get a lot of attention and we do get a great deal of mail because of it. Most of the other things in your statement, and on your policies, you are certainly right on track. Personally, I want to thank you for doing a good job, you and your staff.

While I'm at it and talking to you, I understand that Mrs. Melidosian is in the audience. We would like to welcome her this morning, too.

Mr. McEwen was here but had to leave because of a commitment at the White House. However, he does have a statement that he would like entered into the record and, of course, without objection, that will be done.

[The statement of McEwen appears at p. 70.]

Mr. APPLEGATE. At this time I would like to introduce and welcome to the subcommittee a man who, of all the chairmen of the House Veterans' Affairs Committees that I have served with, always likes to sit in on the subcommittees and wants to see how his underlings are doing. We always welcome the chairman, Mr. Montgomery.

STATEMENT OF HON. G. V. (SONNY) MONTGOMERY, CHAIRMAN, COMMITTEE ON VETERANS' AFFAIRS

Mr. MONTGOMERY. Thank you, Mr. Chairman. I certainly don't have to worry about you. I know you will be on time and conduct the meetings in a creditable manner.

I would like to alsc welcome Mr. Melidosian, a close, warm friend of mine. I would also like to welcome Mrs. Melidosian. Thanks for letting Mel work in the Government these number of years. I'm sorry we didn't get to visit the other day when we had the leadership conference of the different veterans employees that

was held in one of our committee rooms. But certainly it is nice to have you, Mel, and the job you have done, plus the witnesses at the table there.

In my opinion, Mr. Chairman, this is one of our best run departments not only in the Veterans' Administration but in the Federal Government. The insurance department in Philadelphia is certainly a credit to the taxpayers of this country.

We have had some areas that we had to handle in the insurance field. It's the biggest insurance company, in effect, in the world. I guess none of these other companies have gotten bigger than you, have they?

Mr. MELIDOSIAN. They are growing, sir.

Mr. MONTGOMERY. I appreciate what you said about maybe capping or trying to work out something for the World War II veteran, and I assume the Korean veteran is right behind there in that their age is only 4 or 5 years difference. We do receive a lot of mail from the World War II veterans on the term insurance, and I guess it is just human nature that you kind of forget about the coverage you did have for term insurance—and that's what term insurance is, to cover you a certain time when you really needed it. Now that it's past that tremendous need, people are wondering why their premiums continue to go up. It is term insurance and that's what they bought.

But you think you will be able to put a cap on by your reserves that you do have—would you repeat that again? And also, how is the paid-up insurance going? You know, we recommended paid-up insurance, as I recall, in one other area that the World War II veterans could do, a reduction of insurance. Are they doing that? I would like to hear from you on those two questions.

Mr. MELIDOSIAN. Yes, sir. On the capping, we are very confident that we will be able to cap the term policy. We clearly are going to start step one to cap the premiums at age 75 and roll them back. They are very high at that age, and we have discussed those with you.

Mr. MONTGOMERY. At 75; I thought you mentioned 70——

Mr. MELIDOSIAN. We are going by phases. In other words, anyone over 75 would be rolled back in the first phase. Then we would deal with all accounts between 70 and 75. That's phase two. Hopefully, we actually would like to cap the accounts under those ages and make a ceiling at age 70. We believe that we can do that out of the reserves.

We have built up a contingency reserve over the past 3 or possibly 4 years to allow us to take the initial action. We are confident, with the improved mortality and the increased earnings on reserves, that we will be able to do this. As stated in our recap and our submission to the full committee, the only condition that we would have to cite would be a reduction of the dividends. But if the experience in mortality holds up, the resources should continue to be there to fund this proposal which would be the initial step.

There is a wide range of costs for premiums per month between age 70 and 75, but we would start with the cap at age 75. But again, I reiterate we want to do it by early 1984, the early part of the year, and then proceed to go down to the age 70 rate.

The second part of your question was on paid-up additions. That has been a very successful program. Those people that have bought the plan have stayed with it. It's a permanent-type policy. Roughly, as a rule of thumb, for every dollar of dividend, it has bought about a dollar-and-a-half of insurance coverage. It's a permanent type of plan and covers all of the benefits of the program under which you can borrow money, if you want, or cash it in and get the cash value from it.

The latest figure that both Mr. Carey and Paul Koons has given me is that we have about 775,000 policies that are carrying paid-up additions. Actually, it is almost $2 billion of additional coverage that is purchased by that 775,000.

We have some interesting things that are happening. As you know, under Public Law 36, passed by this committee some years ago, that allowed dividend money to be held with interest and used to pay past due premiums, some insureds have now accumulated almost $10,000 in these credit accounts. So we have some people that now have almost $20,000 insurance coverage. I think there are some accounts now that have accumulated $5,000 of paid-up additions that came in under this program.

Mr. MONTGOMERY. My time is up.

Mr. Chairman, may I ask one more question?

Mr. APPLEGATE. Certainly.

Mr. MONTGOMERY. I don't want to start a rumor here, but about every 2 or 3 years the rumor comes out around the country that we're getting ready to pay a tremendous dividend to the veterans, that there's a lot of money in Philadelphia and that every veteran will get a certain insurance dividend.

Where do those rumors come from, if you could just answer that?

Mr. MELIDOSIAN. For the confines of this room, because we don't like publicity that carries a wrong statement, for the last 5 years each dividend declaration has been larger than the preceding year and each one has been the largest in history. I can tell you, Mr. Chairman, that that will be true next year. There will, in fact, be an increase in the dividend that will exceed last year's.

Our initial figures indicate that it certainly is going to be more than 5 percent and probably less than 10 percent. I would say that it's a minimum of 5 percent in excess of the dividend declaration of last year, which would bring it in somewhere under $700 million of dividend declaration that will be submitted to the Administrator in the very near future.

Mr. MONTGOMERY. I guess I was talking about the dividend hoax.

Mr. MELIDOSIAN. Oh, I beg your pardon. I thought you were talking about the new dividend declaration.

Mr. MONTGOMERY. Well, that was of interest.

Mr. MELIDOSIAN. Interestingly enough, the technique that we instituted a few years ago, with the cooperation of the Post Office Department, allowed the request for the so-called WW II dividends which were addressed to a Captain Prosser to be returned to the sender. It has, I think, substantially diminished the number that we're receiving, and has reduced our administrative costs. I believe the last set of figures that I looked at would indicate that, those which are addressed to the VA and which we must handle in our operations, amount to about 30 per day. But the others are re-

turned through the post office system. As a result, this is a substantial administrative change.

Mr. MONTGOMERY. In other words, Mr. Melidosian, on all policies from World War I through the Vietnam era, there is a possibility there will be a dividend on those policies; is that correct?

Mr. MELIDOSIAN. Well, the two main accounts that we have are those of the U.S. Goverment life insurance program, that's commonly referred to as World War I, even though some of these policies were issued up to 1940. There will be a very sizable dividend declaration for that program.

The bulk of all policies we have are commonly referred to as World War II accounts. We will be paying a dividend on that group. I would say in those two accounts probably 85 percent of all the moneys are expended on the dividend declarations, so they would get——

Mr. MONTGOMERY. For the Vietnam era, there is no dividend account?

Mr. MELIDOSIAN. No. The only account that's open is the service-connected disability, and that's a program that does not pay for itself, so there are no reserves and, therefore, no dividend declaration on that.

For the persons coming out of military service that buy veterans group life with a 5-year period, that's a low-cost program that is not participating because it's funded in terms principally by the people who are on active duty which generate the funds to carry the costs of the veterans group life plan, so there is no surplus for a dividend there.

Now, for all the people, the millions that are on active duty that have $35,000 of military service coverage, service group life, rather than declare a dividend, we adjust the premium. That's why we are now working on reducing the premium 11.6 cents per thousand per month, the roughly $4.06 payment per month for the $35,000. Our expectation is that by early 1984 we will have in place a new premium reduction for those people, which is a form of dividend as we build up the reserves. I think it is going to be a fairly significant decrease on a percentage basis.

Mr. MONTGOMERY. My last question. There are no plans for World War II, where persons dropped their insurance, of declaring a dividend that would cover those who did not continue to participate in the program and they dropped their insurance? There are no plans, for the record, to pay these individuals a check or a bonus or a dividend because they served in World War II and because there is a surplus in that account?

Mr. MELIDOSIAN. Mr. Chairman, I would say the answer to that is that we absolutely have no such plans. It would not be feasible or equitable to do so. We want to take all the resources that are in the reserves and the contingency reserves to use to cap the 1.3 million term policies that are still on the rolls, starting with age 75, and hopefully to get down to age 70 very quickly and get that in place. That will take not only part of the dividend declarations that we have been making, but will require the surplus in the two principal reserves that we have.

Mr. MONTGOMERY. I'm not recommending that, and I think your philosophy is, those who paid the premiums should be entitled to whatever benefits might come out of that.

Mr. MELIDOSIAN. Yes, sir.

Mr. MONTGOMERY. I was really just asking that to kind of slow down a rumor that might be started in the next year or two, that because of the big surplus in some of these accounts every person who served in the military will receive a benefit. I wanted to get the record straight on it.

Mr. MELIDOSIAN. Yes, sir.

Well, you can almost say the entire reserves belong to those that have permanent plans, those people with permanent plans that have contributed. A part of their premium was deposited to the reserves for investment purposes and have had the earnings. People who talk about the large amount of reserves and the distribution see that in the dividend declaration of those 2 million people with permanent policies, 75 percent of those persons with permanent insurance now are receiving a dividend that is very close, if not equal, to their premium. But this is because we're getting a spread of over 4 percent on our earnings from the Treasury investments of the $9 to $10 billion which is owned by the trust of the permanent policyholders.

Mr. MONTGOMERY. Thank you, Mr. Chairman.

Mr. APPLEGATE. Thank you, Mr. Chairman.

The gentleman from Texas has come in, Mr. Hall.

Mr. Hall, do you have anything you wish to say?

Mr. HALL. I have no questions.

Mr. APPLEGATE. Mr. Melidosian, again, thank you very, very much for coming and sharing your thoughts with us this morning. It leaves us with something really bright to look forward to and it is so good to know that we have somebody like yourself as being such top people in the running of our various agencies, this being one of the most important.

I understand that one of your attributes and great achievements is that you are a historian, and a Philadelphia historian, you and Mrs. Melidosian. Perhaps that is one of the reasons for some of your success, that I guess you learn from the past. An awareness and a knowledge of the past I think is so important to our future, and I have always been interested in the past history of our American Government and of Philadelphia, which, of course, is so much a part of it. Maybe some day we will have a chance to sit down and talk about it.

Mr. MELIDOSIAN. That would be very nice. Thank you kindly, sir.

Mr. APPLEGATE. Thank you for being here.

Next we will bring to the table a panel of three, Mr. Richard Johnson, Jr., national legislative director of the Noncommissioned Officers Association; Comdr. John Wanamaker, deputy director of legislative affairs, Retired Officers Association; and Mr. Max Beilke, legislative counsel, National Association for Uniformed Services.

Whoever it is of you who would like to draw straws and start—you have been here before and you know how to operate. We are anxiously looking forward to what you have to say.

Mr. Johnson.

STATEMENTS OF RICHARD W. JOHNSON, JR., NATIONAL LEGISLATIVE DIRECTOR, THE NONCOMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA; MAX J. BEILKE, LEGISLATIVE COUNSEL, THE NATIONAL ASSOCIATION FOR UNIFORMED SERVICES; AND JOHN F. WANAMAKER, U.S.N. (RET.), DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Mr. JOHNSON. Thank you, Mr. Chairman. I will start out and, at the popular request of my colleagues, I will be very, very brief. I do ask that my full statement be entered in the record.

Mr. Chairman, I would like to join the committee in extending our thanks to the Veterans' Administration and the VA Insurance Center in Philadelphia for the fine work they have done in this program. Of all the things that come through our National Service officers, insurance problems are the least reported type of problems that we have.

However, we sit here today in support of increasing once again SGLI and VGLI coverage. Notwithstanding the interest the committee took on the issue 2 years ago, and the increase provided at that time, we still believe that the replacement income value of SGLI is considerably diminished as compared with what it was when the program began and it is inadequate to the needs of today's service member.

Our service members today have a number of problems. It is difficult for many to get other insurance. What other insurance is available to them is quite frequently limited by war risk or war clauses. We therefore support a $65,000 increase in that program, bringing an optional coverage amount to $100,000.

Finally, Mr. Chairman, I would like to endorse the recommendation that the National Association for Uniformed Services will make in their statement regarding the use of military allotment for the payment of veterans insurance premiums. It seems to us a very good idea. While we recognize it is not a function of this committee to authorize such allotments, it would indeed be helpful for this committee to indicate their support to the Armed Services Committee and to the Department of Defense for such an allotment program.

That concludes my remarks.

[The statement of Richard W. Johnson appears at p. 70.]

Mr. APPLEGATE. Thank you very much.

Mr. Beilke.

STATEMENT OF MAX J. BEILKE

Mr. BEILKE. Good morning, Mr. Chairman. Again, it's an honor and a privilege to present the views of NAUS before your committee.

Several witnesses have or will express support for an increase in the SGLI/VGLI program and NAUS fully supports such an increase. Of almost equal interest to NAUS is our understanding that the insurance carrier administrator of the program does not desire to have VGLI premiums paid by allotment from military retired pay. NAUS believes payment by allotment would be advantageous to both the carrier and the policyholder and, therefore,

NAUS respectfully requests that your committee investigate the feasibility of establishing payment of VGLI premiums by allotment from military retired pay.

That, Mr. Chairman, concludes my short statement, and I am prepared to respond to questions. Thank you.

[The statement of Max J. Beilke appears at p. 71.]

Mr. APPLEGATE. Thank you.

Commander Wanamaker.

STATEMENT OF JOHN F. WANAMAKER

Mr. WANAMAKER. Thank you, Mr. Chairman.

I am Commander Wanamaker of the Retired Officers Association, and I have a full four-page statement that I will submit for the record. I also want to summarize very briefly the context of the statement, that we also ask for an increase in the SGLI/VGLI insurance programs.

I took a little different tack than just the simple increase of $65,000 to $100,000, which Mr. Johnson here has asked. I suggested a program similar in nature to that which is available today for the civilian Federal employees. I must say that the $35,000 insurance maximum available under the SGLI program for today's veteran is less than one-half of the insurance options available to the lowest paid GS–1 employee. I think that, in itself, calls for a review of the program for our servicemen.

After I got back to my office, after bringing my statement over the other day, Mr. Chairman, I picked up a letter on my desk and I think that it best explains some of the problems in the insurance programs administered by the Veterans' Administration. I would like to just paraphrase a few sentences from this one-page letter.

The letter is from a retired captain, a doctor, and he is 83½ years old. He completed 12 years of medical school at his own expense, not Government subsidized at all, and during World War II he came in the Navy. When they asked for doctors, he volunteered and applied for a commission. At that time he closed his medical practice in order to come in the Navy.

He was carrying $250,000 worth of insurance at the time he came into the Navy. He had to drop that insurance or phase it out because he couldn't afford to pay for that insurance. So here is a person who felt that he needed $250,000 worth of insurance, but he had to sacrifice that when he came in the Navy.

In substitute of that, of course, he picked up the $10,000 national service life insurance. Now he has been paying on that for 38 years. His retired pay from the Navy is $527 a month. He is paying $233.90 a month just for that insurance. That leaves him with his Navy final pension in the amount of $263 a month. Every time this insurance goes up, his standard of living goes down.

I am just so pleased as all get out when I hear Mr. Melidosian say they are going to come forward with some sort of cap. It is absolutely needed in the worst way.

That summarizes my statement, Mr. Chairman. I would be glad to answer any questions you may have.

[The statement of John F. Wanamaker appears at p. 72.]

Mr. APPLEGATE. Thank you very much, Mr. Wanamaker, and all of you.

That was a very enlightening letter and a very educational one, too. It really points out the seriousness of the problem that many of our veterans are facing. We hope that there will be some corrections.

Mr. Hall.

Mr. HALL. Thank you, Mr. Chairman.

Mr. Johnson, how many people who are in the armed services today, percentagewise, take advantage of buying insurance—if you know, or any of you three?

Mr. JOHNSON. I do not have the exact figure, but I would assume it's very, very close to 100 percent.

Mr. WANAMAKER. I heard 97 percent at one time—that 97 percent of those on active duty participate in the SGLI program.

Mr. HALL. Is that a greater percentage than participated in World War II?

Mr. WANAMAKER. That I don't know, but I would think it is of a very similar nature.

Mr. HALL. Do you believe that if this was increased, as you indicate, that a good portion of that 97 percent would apply for the new coverage, additional coverage?

Mr. JOHNSON. I believe that a substantial portion would apply for increased coverage, perhaps not to the maximum value of the policy. I think we would find people taking more in the way of optional amounts.

So of the 97 percent that participate in the current program, I would say probably 97 percent of them participate at the full $35,000 level. If coverage is increased, I would suspect that we would find a moderation.

Mr. HALL. Are there any commercial policies issued today that do not have a war clause in the policy?

Mr. JOHNSON. I know of one whole life policy that does not have a war clause. That is offered by a company that we endorse as an association. To my knowledge, that is the only policy that does not have a war clause.

Mr. HALL. What company?

Mr. JOHNSON. Academy Life Insurance.

Mr. HALL. These people in the services, have they been contacted or notified that there is such a company available if they wish to take out additional insurance?

Mr. JOHNSON. I know Academy is doing everything they can to get the word out, Mr. Hall, but I don't believe there has been any Defense effort to notify the members of the services that such a company is there. Quite frankly, I'm not sure that Defense should be involved in this. But it would be an idea to try and provide that kind of listing as a public service.

Mr. HALL. Commander, the letter that you mentioned, dealing with the uncontestability clause—the 2-year clause—would not a portion of his $250,000 insurance still not have given him coverage if he had waited 2 years?

Mr. WANAMAKER. It did, Mr. Hall. In fact, I will read his exact statement. He was carrying regular life insurance at the time of the war of $250,000 "* * * that I had started at age 25 years and

was planned to mature at my attained age of 45 years. Because of insufficient funds in the development of the war, this insurance was allowed to carry as far as possible and then lapse." So there was a certain amount of paid-up insurance that he allowed to carry over, to carry until it finally lapsed.

Mr. HALL. Thank you very much, Mr. Chairman.

Mr. APPLEGATE. Gentlemen, thank you very much. Your entire statements will be entered into the record.

Next we have Mr. James Magill, special assistant, National Legislative Service, Veterans of Foreign Wars; Mr. Bob Moran, associate legislative director, Paralyzed Veterans of America; and Mr. Stephen Edmiston, associate deputy national legislative director of the DAV.

While they are coming forward, I would say that Mr. McEwen, the ranking minority member of the committee, did have some questions that he would like submitted for the record for Mr. Melidosian,[1] and also, in the absence of anybody else, Mr. Wiley of Ohio [2] and Mr. Hammerschmidt of Arkansas [3] had statements that they would like entered into the record. Without objection, that also shall be.

Gentlemen, you may proceed as you wish.

STATEMENTS OF JAMES N. MAGILL, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES; BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA; AND STEPHEN L. EDMISTON, ASSOCIATE DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. MAGILL. Thank you, Mr. Chairman, for the opportunity to present the views of the Veterans of Foreign Wars with respect to the various VA insurance programs. We believe these programs have been very well received and the VA and this subcommittee should be commended for their making them a success.

The voting delegates to our most recent convention have approved two resolutions which we believe will further benefit our Nation's veterans in this area. First, we believe Vietnam veterans should be able to receive continuing, low-cost life insurance as did veterans of previous wars. Presently, these veterans must convert their SGLI to a commercial plan at much higher rates. We also believe veterans who are suffering from a service-connected disability and who do not qualify for specially adapted housing should not be required to obtain mortgage insurance at the high rates as they are forced to do now. We would certainly support and encourage the enactment of legislation providing for relief from these higher mortgage premiums for these veterans.

Finally, Mr. Chairman, although we are not mandated by resolution, we would also like to bring to your attention a problem that has been brought to you before. The problem experienced by certain veterans who have continued to renew their 5-year term insurance and are now faced with exceptionally high premiums. Many

[1] See p. 73.
[1] See p. 74.
[1] See p. 74.

cannot afford these high premiums, nor can they afford to cancel their policies. We believe a solution to this problem can be reached, as was mentioned before, by putting a cap on these premiums, although we believe a capping age 65 would be more appropriate.

This concludes my statement and I'll be happy to respond to any questions.

[The statement of James N. Magill appears at p. 75.]

Mr. APPLEGATE. Thank you.

Mr. Moran.

STATEMENT OF BOB MORAN

Mr. MORAN. Mr. Chairman and members of the subcommittee, on behalf of the Paralyzed Veterans of America, I wish to thank you for this opportunity to present the views and concerns of PVA regarding Veterans' Administration insurance programs.

I am Bob Moran, PVA associate legislative director.

The insurance programs administered by the VA have long served as a necessary resource for the severely disabled veteran who otherwise would not have access to commercial insurance.

For veterans to be well served by these programs, VA insurance coverage should more realistically reflect the prevailing economic conditions; they need to be increased to levels comparable to those available through commercial insurance providers.

"RH" insurance is a special type of national service life insurance available to veterans with service-connected disabilities. This insurance is issued in amounts of $1,000 up to $10,000, and the veteran cannot purchase any other form of Federal Government life insurance which would total more than $10,000.

PVA recommends that national service life insurance "RH" polices be raised from the maximum of $10,000 to $50,000. An alternative to raising the maximum would be a 1-year open enrollment to allow eligible veterans to purchase additional amounts of insurance up to $90,000. This additional purchase, added with the VA's $10,000, would give a more realistic insurance coverage of $100,000. This alternative would add minimal administrative costs to the VA, yet allow those veterans more realistic insurance coverage to provide for their families as recommended by commercial insurers.

For example, a spinal cord injured veteran, aged 42, with a life expectancy of 69, with a wife and two children and an annual earning capacity of $17,000, the total family protection should be at least $102,000.

Another concern of PVA is the veterans mortgage life insurance program, VMLI. This program provides mortgage protection up to the maximum of $40,000 for those veterans who have been granted or will be granted a specially adapted housing grant. VMLI provides mortgage insurance for severely disabled veterans who would not otherwise be able to obtain coverage because of their medical condition. As of August 1983, the average cost of a newly constructed home is $92,400. Mr. Chairman, while the figures themselves provide evidence of the cost involved, it is clear that VMLI is not keeping pace with today's economic situation.

A veteran who buys a specially adapted house, utilizing the maximum amount of the VA grant and the maximum amount of

VMLI, cannot be assured of providing mortgage-free housing for his spouse and dependents should he die.

PVA advocates that VMLI maximum coverage be increased to $60,000 to more accurately reflect the increased amount of mortgage which remains after the veteran's death. PVA continues to receive correspondence from widows who are forced to sell the family home when faced with a high mortgage.

Mr. Chairman, in conclusion, I wish to reiterate PVA's concern. First, we believe that "RH" national service life insurance should be increased by one of the alternatives PVA has suggested to reflect the current requirements for providing adequately for a veteran's survivors. We recommend either raising the maximum amount from $10,000 to $50,000 or providing the veteran the opportunity to purchase additional coverage. Second, veterans mortgage life insurance should be increased from $40,000 to a maximum of $60,000 to reflect the rising cost of housing and allow our Nation's severely disabled veterans a sufficient coverage to provide adequately for their families.

Mr. Chairman, this concludes my testimony. I will be glad to answer any questions that I can. Thank you.

[The statement of Bob Moran appears at p. 76.]

Mr. APPLEGATE. Mr. Edmiston.

STATEMENT OF STEPHEN L. EDMISTON

Mr. EDMISTON. Thank you, Mr. Chairman.

On behalf of the nearly 800,000 members of the DAV, we appreciate this opportunity to present our views on the various VA insurance programs.

Before proceeding, Mr. Chairman, I would like to commend you for holding these hearings and for keeping a watchful eye on the effectiveness of these important programs.

Since my written testimony has addressed the VA insurance programs in detail, I will limit my oral remarks to the VA's mortgage protection life insurance program. Section 806 of title 38 authorizes the Administrator to purchase from commercial life insurance companies mortgage protection life insurance policies, on a group basis, for those service-connected veterans who have purchased housing under the VA specially adapted housing program.

Under present law, such permanently and totally disabled service-connected veterans are granted mortgage protection life insurance not to exceed $40,000 or the amount of the mortgage, whichever is the lesser amount.

However, very few veterans are aware that additional remaining eligibility for such coverage is available to them if they relocate or move into another home. In this regard, we believe the VA should be required to advise all eligible veterans of any remaining entitlement to mortgage life insurance upon the resale of their home or the termination of an existing mortgage protection life insurance policy.

In addition, considering the success of the VA mortgage protection life insurance program and the restoration of full entitlement principle which exists in the VA home loan guaranty program, we believe that the subcommittee should consider legislation which

would provide restoration of full insurance benefits under the VMLI program to this category of severely disabled veterans.

The DAV believes that such a liberalization could be made at a comparatively low cost since VA statistics show that there are just over 6,000 active cases under the VMLI program.

In discussing the veterans mortgage life insurance program, Mr. Chairman, we feel compelled to comment on legislation presently pending before this subcommittee. I refer to H.R. 461, introduced by you, Mr. Chairman, at DAV request. This measure would extend VA mortgage protection life insurance to service-connected veterans rated permanently and totally disabled, but who are not eligible under the VA specially adapted housing program.

Aside from the fact that such legislation would be a compassionate gesture, recognizing the sacrifices of totally disabled service-connected veterans, the enactment of such legislation would greatly benefit such severely disabled veterans who, because of their service-connected disabilities, cannot purchase mortgage life insurance from commercial insurers at any cost. The DAV would urge the subcommittee to favorably consider this legislation.

Before closing, I wish to make one final point regarding the VA's mortgage protection life insurance program. Section 806 of title 38 provides, among other things, for the termination of MPLI whenever one of the following first occurs: The satisfaction of the veteran's indebtedness under the loan upon which the insurance is based; the veteran's 70th birthday; termination of the veteran's ownership of the property securing the loan; discontinuance of payment of premiums by the veteran; or discontinuance of the entire contract.

Most of the reasons for termination of MPLI are understandably necessary. However, we are quite concerned with the requirement that terminates a benefit to severely disabled service-connected veterans solely because of age.

Quite frankly, Mr. Chairman, we believe this provision of title 38 has created an anomaly that unfairly treats similarly situated service-connected veterans in a very dissimilar manner in the award of benefits. Nowhere else in title 38 do we find a provision that links age as a factor in the award or discontinuance of benefits provided to service-connected disabled veterans.

Since this situation was recently brought to our attention, Mr. Chairman, we do not have an official mandate on this subject. However, because of the serious impact this provision of law has had upon certain service-connected veterans and their families, we strongly urge you and the members of the subcommittee to take the necessary steps to correct this anomaly.

Furthermore, we believe that any change to correct this inequity should be made retroactively, thereby enabling those who have lost entitlement to mortgage protection life insurance because of age the opportunity to reapply for this coverage.

That concludes my statement, Mr. Chairman. I again wish to thank you and the members of the subcommittee for inviting the DAV here today to discuss these important issues.

[The statement of Stephen Edmiston appears at p. 78.]

Mr. APPLEGATE. Mr. Edmiston, Mr. Magill, and Mr. Moran, thank you very much for appearing before the subcommittee and adding to the testimony.

As I stated before, the oversight hearings are necessary in our reviews for evaluation or reevaluation, with the possibility of legislative corrections to make the programs even more equitable than what they presently are. We will be looking at what you have given to us.

Your entire statements, incidentally, will be entered into the record.

Thank you very much for appearing before the subcommittee this morning, and thank you, all of you, for appearing this morning. This subcommittee will stand adjourned until further call of the Chair.

[Whereupon, at 10:08 a.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF S. W. MELIDOSIAN
DIRECTOR, VETERANS ADMINISTRATION
REGIONAL OFFICE AND INSURANCE CENTER
PHILADELPHIA, PENNSYLVANIA
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION, AND INSURANCE
HOUSE COMMITTEE ON VETERANS' AFFAIRS

OCTOBER 4, 1983

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to review for the Subcommittee the status of the various United States Government Life Insurance (USGLI) and National Service Life Insurance (NSLI) programs which we administer; and to review the growth and development of the Servicemen's Group Life Insurance (SGLI), Veterans' Group Life Insurance (VGLI) and Veterans' Mortgage Life Insurance (VMLI) programs. The Veterans Administration is responsible for supervising the management and administration of these group life insurance programs.

These Veterans Administration administered and supervised insurance programs provide $157 billion in insurance protection to 7.6 million veterans and service-persons covered under either an individual plan of insurance or a group policy.

Each program was initiated in response to a need to afford financial security through low cost insurance protection to veterans and members of the uniformed services of the United States Government. The Government life insurance programs are unique in that each was developed with the cooperation and advice of the commercial life insurance industry, which was unable to underwrite the risks associated with military service at standard rates. Consequently, the options and contractual agreements contained in the NSLI and USGLI policies issued between

27-367 O—83——4

1919 and 1957 closely parallel the standard policies issued by commercial companies during that period. In 1965 when Congress again recognized the need to provide a program of insurance to the members of the military services, the Veterans Administration in concert with several commercial insurers developed a group protection plan which includes an automatic coverage feature. This same concept was later extended to recently separated veterans and retired reservists.

The impact these programs have on the economy can be gauged to some extent by the value of the disbursements made to policyholders and beneficiaries each year. The total death benefits authorized for all programs combined from July 1, 1982 through June 30, 1983 amounted to $644 million. An additional $667 million was paid in dividends and another $141 million was paid to veterans whose policies matured or were cash surrendered. The annual dividends for calendar year 1983 will amount to almost $700 million.

In administering and supervising these programs, our primary objective is to maximize the financial security provided by each program of insurance. This is and will be an especially challenging task in the NSLI and USGLI programs because the purchasing power of the current dollar is drastically reduced as compared to when the policies were first issued.

I would now like to turn to the individual insurance programs and begin with United States Government Life Insurance (USGLI). This program can best be described as a matured program since it is closed to new issues and 99 percent of the policyholders are over age 60. The average attained age of the policyholders in this program as of June 30, 1983 was 78.3 years. From July 1, 1982 through June 30, 1983, 6,565 policies or 7.7 percent of the policies in force at the beginning of the year matured through the death of the policyholder.

While USGLI is frequently referred to as World War I insurance, this is somewhat of a misnomer since we estimate that only 48 percent are old enough to have served in World War I. The balance served during the post-war period up to October 8, 1940, when NSLI went into effect. At the end of June 1983, we had 78,361 USGLI policies in force. The average amount of each policy was $3,969. Exhibit A provides a summary of the in-force USGLI policy activity from July 1, 1982 through June 30, 1983, as well as the distribution of plans and amount of insurance held by policyholders at the end of that period.

Within the program there are eight plans of insurance available: Five-Year Level Premium Term, Ordinary Life, Twenty-Payment Life, Thirty-Payment Life, Twenty-Year Endowment, Thirty-Year Endowment, Endowment at Age 62 and a Special Endowment at Age 96.

The most significant development affecting the approximately 70,000 USGLI policyholders was the amendment of Veterans Administration regulations to provide that as of January 1, 1983 the payment of premiums is no longer required. This decision resulted from our determination that the reserves held in the USGLI fund are adequate to meet the future liabilities of the program.

USGLI premium rates and the policy reserves are based on the American Experience Table of Mortality and on a 3 1/2 percent guaranteed interest rate. Based on these assumptions, the reserves that have been set aside in the trust fund together with their interest earnings will be sufficient to meet all of the program's future liabilities.

As of June 30, 1983, the average rate of return on USGLI investments in U.S. securities was 7.35 percent, with new investments earning 10.25 percent. This difference between current earnings and guaranteed interest values has produced significant excess interest earnings, which have been distributed each year as part of the annual dividend declaration.

The net effect of the mortality savings and excess interest earnings that the program has experienced is that premiums are no longer required to fund the USGLI program. The trust fund from which USGLI claims are paid is financially sound as indicated on the Summary of Operations provided in Exhibit B. As a result of the regulatory change, those policies which were on a premium paying status no longer face the possibility of lapse due to nonpayment of premiums.

The fact that the average age of USGLI policyholders is now 78.3 years makes the regulatory change especially significant because it is likely that some policyholders would have inadvertently failed to remit timely premium payments. Since it could be difficult for veterans at these advanced ages to meet the good health requirements for reinstatement, this action by the Administrator will preclude the lapse of policies which have been in force for as many as 64 years. The elimination of this possibility constitutes a substantial benefit to the approximately 22,900 veterans whose policies were on a premium paying status at the time of the regulatory change. Prior to this regulatory change, approximately 500 policyholders were receiving dividends which amounted to less than their annual premium income. Since premiums are no longer required, the dividends of those previously on a premium paying basis have been reduced to compensate for the loss in premium income.

I would now like to briefly discuss the National Service Life Insurance (NSLI) program. Enrollment in the NSLI program peaked in 1944, when nearly 16 million policies were in force with a face value exceeding $121 billion. As of June 30, 1983, 4,150,420 policies remained in force with a face value of $30.3 billion.

Each policyholder is permitted a maximum of $10,000 coverage. There is, however, a provision which permits dividends to be used to purchase additional paid-up insurance in excess of the $10,000 limit. There is no limit on the amount of additional paid-up insurance which may be purchased.

There are four distinct NSLI programs. In addition to the parent NSLI program which was authorized by the NSLI Act of 1940, the program was expanded in 1951 to include the Veterans' Special Life Insurance and Service Disabled Veterans' Insurance. A fourth program, Veterans' Reopened Insurance, was added in 1965.

Of the four programs, NSLI, which is commonly referred to as "V" insurance, is by far our largest program. Of the over 22 million policies which have been issued since the program's onset in 1940, approximately 3.3 million remain in force and provide approximately $23.1 billion in insurance protection. In April 1951, this program was closed to new issues and only reinstatements now add to the in-force totals. The average age of our "V" policyholders is 60.9.

As of June 30, 1983, the trust fund from which NSLI claims are paid has investments of $10,012,730,732. Policy loans account for $1,161,335,732 (11.6 percent) of the total. The average rate of return on policy loans is 4.91 percent. The balance of $8,851,395,000 (88.4 percent) is invested in U.S. Government

securities at an average rate of return of 8.975 percent. The average rate of return on all investments (policy loans and U.S. Government securities) is 8.503 percent. Exhibit C provides a summary of insurance trust fund investments.

With the exception of administrative expenses and claim losses directly traceable to the extra occupational hazard of service in the Armed Forces, the NSLI program is self-supporting. All NSLI policies contain a waiver of premium provision at no extra cost to the insured. For an additional premium, an optional Total Disability Income Provision rider may also be attached to the policy.

All NSLI policies are participating, with the exception of a very small number (3,451) of policies that are prefixed with the letter "H". These "H" policies were issued between August 1, 1946 and December 31, 1949 to veterans who were eligible for NSLI, but could not meet the health requirements because of disabilities resulting from or aggravated by active service.

The following is a statistical breakdown of NSLI policies prefixed with the letter "V" as of June 30, 1983:

No. of Five-Year Term Policies in force	1,029,499
No. of Permanent Plan Policies in force	2,274,560
Average Amount Per Policy	$6,416
Estimated Average Attained Age	60.9 years
Average Annual Death Rate	16.2 per 1,000

Although term premiums become very high as the insurance is renewed at the older ages, we are continuing to experience a high renewal rate for our "V" term policyholders. Of those policyholders who reached renewal age 65 in 1982, 93 percent chose to renew their term coverage. At age 75, 88 percent renewed and at age 85, 94 percent renewed their term coverage. Almost 12 percent of our term policyholders are utilizing their dividends to purchase paid-up additions. As of June 30, 1983, over 122,500 policyholders have purchased nearly $240 million in paid-up coverage.

In the last few years, there has been a marked change in the attitude of the general public toward term insurance as more individuals become aware of the purpose and value of this type of coverage. Less than 13 years ago there were over 2 million NSLI term policies; today, slightly over 1 million term policies are in force.

Term insurance is, of course, designed to provide maximum coverage when it is most needed, which normally is when an insured's family is young. The need for term insurance, which becomes costly at advanced ages, is often diminished as the insured's children become financially independent, and other sources of income from Social Security, a survivor's pension annuity or investment plans become available to the surviving spouse.

Although the high cost of term insurance beyond age 60 was once considered a problem, we now feel that this has been alleviated by a general policyholder understanding of the nature of term insurance. In recent years, a number of consumer advocates have written about the advantages of term coverage. We

believe that many policyholders who have voluntarily discontinued their coverage have done so because they recognized that their term insurance was no longer needed to meet the financial needs of their survivors.

Those policyholders who want to retain permanent protection continue to have the option of converting to a permanent plan of insurance such as Ordinary Life or Modified Life at Ages 65 or 70. Although premium rates for permanent plans are higher than for term policies issued at the same ages, permanent plan premiums remain the same throughout the life of the policy. For this reason, policyholders who convert at age 60 or older can expect the annual net cost (premiums less dividends) of an Ordinary Life policy to fall below the cost of their term policies within approximately six years of converting. Exhibit D shows the relative net costs of term vs. Ordinary Life insurance over a seven year period if converted at age 60.

We are also studying the feasibility of capping or freezing term premiums for those policyholders who have elected to retain their term coverage indefinitely. Our initial actuarial analysis indicates that we may be able to cap term premiums at the beginning of the policyholder's first five-year renewal period beyond age 70. The renewal rates at each of these ages are as follows:

For Policies Renewed at Age	Monthly Premium Per $1,000
70	6.18
71	6.73
72	7.33
73	7.97
74	8.67

Premiums for policyholders who have already renewed their policies at ages 70 through 74 would be capped at their next renewal at the age 75 rate, which is $9.45 per month per $1,000 of insurance. For policyholders who have renewed their policies at ages above age 75, we would want to be able to roll back their premiums to the age 75 rate.

Additionally, our Actuarial Staff is studying the feasibility of using some of the term reserves to cap premiums at renewal ages below age 70 through 74.

If premiums are capped for term policyholders, there will, of course, be a decline in their annual dividends.

The second largest NSLI program is the Veterans' Special Life Insurance (VSLI) program. This program was made available, without medical examination, to veterans separated from service on or after April 25, 1951, and before January 1, 1957. These policies are prefixed with the letters "RS" and "W". Application for this insurance had to be made within 120 days after the veteran was separated from the service. Approximately 800,000 VSLI policies were issued, of which 495,151 remain in force, representing $4.4 billion of insurance.

Originally, this insurance was issued only on a Five-Year Unlimited Renewable Term basis. These plans are prefixed with the letters "RS". Through legislation enacted in 1958, however, it became possible for these policies to be converted to any of the permanent plans or to be exchanged for a special, low cost, Five-Year

Limited Convertible Term policy, not renewable after age 50. If this policy is not converted before the end of the term period which expires on or after the insured's 50th birthday, the insurance protection ceases. As part of our consumer program, we advise every policyholder approximately one year prior to the expiration date of their policy that they may convert to a permanent plan. A second notice is sent 90 days before the policy and the conversion privilege expire. Approximately 83 percent of these Limited Convertible Term policies are currently in their final renewal period and will expire if not converted prior to the end of the renewal period.

This program was originally established by law on a nonparticipating basis, with the Government underwriting the entire program. The Insurance Act of 1974, however, made this insurance participating with the first dividends being paid in 1975. Like the NSLI program, the VSLI program is virtually self-supporting and includes the disability premium waiver provision at no additional cost. The optional Total Disability Income Provision is also available.

The following is a statistical breakdown of the VSLI program as of June 30 1983:

No. of Five-Year Policies in force	243,094
No. of Permanent Plan Policies in force	252,057
Average Amount per policy	$8,664
Estimated Average Attained Age	51.4 years
Average Annual Death Rate	5.1 per 1,000

In 1964, Congress enacted legislation which provided for a limited reopening of NSLI resulting in the Veterans' Reopened Insurance (VRI) program. This unusual program is commonly referred to as "J", "JR" and "JS" insurance. It was issued to certain disabled Korean and World War II veterans during the period from May 1, 1965 to May 2, 1966.

The premium rate for this insurance depends on the nature and severity of the veteran's disability. "J" and "JR" policies were issued to veterans with varying degrees of service-connected disabilities. The "JS" policies were issued to veterans with nonservice-connected disabilities of such severity as to prevent them from purchasing insurance through commercial insurance companies.

Originally, the insurance was nonparticipating and unlike the other NSLI programs, the administrative costs of the program are borne by the policyholders. Because of favorable claim rates and rising interest levels, premiums were reduced for both the "J" and "JR" policyholders. Moreover, in October 1977, all "JS" policies were declared fully paid-up. In November 1979, authority was granted to make each of these subprograms participating. The legislation which made this insurance available for the one-year reopened period precluded the issuance of any term insurance. A summary of the policy activity from the Veterans' Reopened Insurance program and a distribution of policies by plan are provided in Exhibit E.

The following is a statistical breakdown of the VRI program as of June 30, 1983:

No. of Policies in force	157,090
Average Amount per policy	$6,781
Estimated Average Attained Age	60.8 years
Average Annual Death Rate	15.7 per 1,000

The only NSLI program under which policies are presently being issued is Service Disabled Veterans' Insurance (SDVI). These policies are prefixed with the letters "RH". This insurance is available to veterans separated from service after April 25, 1951, who are suffering from a service-connected disability but who are otherwise insurable. The insurance is issued to these veterans regardless of the severity of the service-connected disability.

Generally, SDVI must be applied for within one year from the date a veteran receives his or her notice of a disability rating by the Veterans Administration. Although information on this program is periodically released by our Information Services, eligible veterans are also sent two notifications of their possible entitlement to SDVI. We are currently issuing approximately 6,000 policies each year. A summary of policy activity and a financial statement are provided in Exhibits F and G.

This program insures medically substandard lives at standard rates of premium. Hence, the program is not self-supporting and does not participate in dividends. The excess cost of claims for this program is covered by the Veterans' Insurance and Indemnities (VI and I) appropriation. The cost to the Government for each new policy issued is approximately $3,719 based on a cost of $400 per $1,000 of coverage. Over the past few years, the Government has contributed about $5 million annually for this program and to date, over $90 million has been appropriated.

This insurance may be issued for all plans available to NSLI (V) policyholders including the Five-Year Unlimited Renewable Term plan. The endowment plans, however, are not available to veterans who are totally disabled at the time of application for insurance. The waiver of premiums provision is included in all plans but the Total Disability Income Provision rider is not available.

The following is a statistical breakdown of the SDVI program as of June 30, 1983:

No. of Five-Year Term Policies in force	87,364
No. of Permanent Plan Policies in force	103,305
Average Amount Per Policy	$9,066
Estimated Average Attained Age	42.6 years
Average Annual Death Rate	11.5 per 1,000

All four NSLI programs provide that a loan may be granted on any policy issued on a permanent plan that has been in force for at least one year. The policy must be on a premium paying basis or in force as paid-up insurance. A term insurance policyholder may take out a loan against any paid-up additional insurance that has been purchased by dividends. There is no waiting period before this type of loan may be made. In both cases, the loan value is 94% of the accrued cash value of the policy and/or paid-up additions.

NSLI policy loan interest rates were increased on July 29, 1981 from 5 percent to 11 percent. For several years, the 5 percent interest rate had been a fraction of the interest charged on secured loans in private money markets. This low rate of interest operated to the detriment of those NSLI policyholders who did not borrow on their policies because monies taken from the NSLI trust fund are not available for investment. These surplus investment earnings are returned to the policyholders in the form of annual dividends. In view of the Administrator's responsibility to manage the insurance trust funds in the best interest of all policyholders, both borrowers and non-borrowers alike, the interest rate was raised so that earnings on both loans and other investments would be compatible.

Future adjustments to the NSLI policy loan rate will be made as deemed necessary to maintain the rate slightly below private money market interest rates. Consideration of the need for adjustments to the loan rate is triggered by the use of an economic indicator. For example, the increase to 11 percent was established at the nearest whole number 2 percent below the June 1981 interest rate of 13.47 percent on United States Treasury Security Yields (Constant Maturities, 10 years). As a result of a decline in this indicator, the VA has initiated a regulation change which would reduce the policy loan interest rate on new loans from 11 percent to 8 percent.

I would now like to discuss the insurance programs which the Veterans Administration supervises; that is, Servicemen's Group Life Insurance (SGLI), Veterans' Group Life Insurance (VGLI) and Veterans' Mortgage Life Insurance (VMLI).

Unlike the maturing NSLI and USGLI programs, the supervised SGLI and VGLI programs present a different type of challenge as we attempt to develop and tailor the programs to meet the current needs of the uniformed services personnel and recently separated veterans.

The SGLI and VGLI programs combined provide 125.9 billion dollars in full-time insurance protection to 3.7 million members of the uniformed services, ready reserves, retired reserves and veterans.

SGLI was first made available in 1965 to members on active duty in the uniformed services of the Army, Navy, Air Force, Marine Corps, Coast Guard, Commissioned Corps of the United States Public Health Service, and the Environmental Science Services Administration, now known as the National Oceanic and Atmospheric Administration of the United States of America. Maximum coverage was originally set at $10,000. The program was established to meet the insurance needs of those individuals serving in the uniformed services during the Vietnam Era.

One of the important provisions in the original law was the right of the individual to convert to a commercial policy at standard premium rates after his or her separation from active duty. This privilege was primarily designed to protect the insurability of those servicepersons who incurred service-connected disabilities during their tour of duty which would have normally rendered them uninsurable at standard rates.

The law also provided servicemembers with 120 days of coverage after separation, during the period of readjustment to civilian life. No premiums are required during this 120-day period. The conversion privilege had to be exercised during the 120-day post-separation period. It is significant to note that the mortality rates during this post-separation period have been twice the in-service mortality rates. The mortality rates for this period are provided in Exhibit H.

In 1970 the law was amended to permit the extension of coverage up to one year for those members who were totally disabled at the time of separation. Since the program's inception 18 years ago, there have been a number of additional changes in the law which have substantially expanded the eligible field of membership and

the amount of coverage available. In 1970 the maximum amount of coverage was increased from $10,000 to $15,000 and part-time coverage was extended to all reservists, to members of the National Guard and to ROTC members while engaged in authorized training duty. In 1972, cadets and midshipmen of the service academies were included for full-time coverage. In 1974 the Veterans' Insurance Act increased maximum coverage to $20,000 for all members, and full-time coverage was extended to members of the ready reserves and retired reservists.

In response to the need to provide additional financial protection for our service personnel, Public Law 97-66 was enacted to increase the maximum coverage from $20,000 to $35,000, effective December 1, 1981. The automatic increase to $35,000, however, did not apply to retired reservists with SGLI coverage. These individuals, including those with less than the previous maximum amount of $20,000, were permitted until December 1, 1982 to apply for additional coverage up to $35,000. Of the 33,312 retired reservists who were mailed applications for the increased coverage, 19,127 or 57 percent, applied for additional coverage and 97 percent of those applications were for the maximum coverage.

The Veterans' Insurance Act of 1974 also established a new program of post-separation insurance known as Veterans' Group Life Insurance (VGLI). VGLI offers low-cost term insurance for up to 5 years during the veterans' post-service readjustment period. As with SGLI, the maximum coverage increased to $35,000. However, the amount of VGLI coverage an individual may obtain still cannot exceed the amount of SGLI he or she had in force. Therefore, the additional coverage was not available to individuals separated or released from service prior to December 1, 1981.

Following the 5-year period of coverage, the veteran policyholder has the right to convert his or her insurance to a commercial whole life policy with any one of 347 companies participating in the VGLI program.

To ensure maximum participation in the SGLI program and avoid any unintentional oversights, the program has been administered on a negative enrollment basis for active duty and reserve members. Coverage is automatic and must be declined in writing before the insurance is terminated. Currently, 99.7 percent of all active duty personnel and 98.6 percent of ready reservists participate in the program.

At the end of policy year 1983 (June 30, 1983), full-time coverage was provided to 2.3 million active duty members and 1,000,000 ready reservists. Part-time coverage was also provided to 8,800 reservists who do not meet the annual training requirements for full-time coverage.

Premium payments for retired reservists are paid directly to the Office of Servicemen's Group Life Insurance (OSGLI). To be eligible for SGLI coverage, a retired reservist must have at least 20 years of creditable service and be eligible for assignment to the retired reserves. Coverage for the retired reservist is provided until they receive their first increment of retired pay or reach their 61st birthday, whichever occurs first. Retired reservists also have the option of converting directly to an individual commercial life insurance policy within the 120 day period after their separation. At the end of policy year 1983, full-time coverage was provided to 29,317 retired reservists.

27-367 O—83——6

VGLI also requires direct payment to OSGLI. Veterans are notified of their eligibility for VGLI through a mailing generated by the Veterans Assistance Discharge System in Austin, Texas. Each service department furnishes the VA Data Processing Center in Austin with copies of Reports of Separation, DD 214, from which mailing lists of recently-separated veterans are prepared. A follow-up package is also sent approximately six months later. The program currently insures 359,000 veterans and provides $8.1 billion in life insurance coverage. While the current participation rate of approximately 30 percent is exceptionally high for what is basically a mail order business, efforts are underway to improve the participation rate.

The original premium rate for SGLI coverage was set at 20 cents per month per $1,000 of coverage. As a result of the favorable mortality experience and increased interest earnings on the contingency reserves, the monthly premium rate was reduced to 17 cents per thousand in 1972 and to 15 cents per thousand in 1978. Last year the Administrator announced another premium reduction, from 15 cents to 11.6 cents per $1,000 of coverage. The new rates went into effect on July 1, 1982 and represent a 23 percent reduction. Thus, we are now able to provide a young member of our armed forces with an immediate estate equal to $35,000 for $4.06 each month. This type of coverage is especially valuable to servicemembers with young families who need maximum financial protection at the lowest cost to protect their families against the risk of their death and the related loss of future income.

Part-time coverage is provided at a cost of $3.50 per year for $35,000 coverage. (A summary of premium rates is provided in Exhibit I). The premiums collected have been sufficient to cover all SGLI costs, except those attributable to the extra

mortality costs due to the hazards of military service, which by law are paid from the Uniformed Services appropriations based on the mortality experience of their members. No extra mortality costs have been charged to the Uniformed Services since policy year 1975.

For retired reservists, the cost of SGLI coverage per $1,000 is 30 cents for those age 39 and under, 40 cents for ages 40 through 49, and 50 cents for those age 50 and over. To date, the premiums collected from the retired reservists have not been sufficient to cover their mortality and expense costs. To cover the additional costs and maintain an attractive premium rate structure, internal transfers from the basic SGLI fund have been required. During policy year 1982, nearly $11 million was transferred to subsidize the 30,700 retired reservists and cumulatively, over $46.6 million has been transferred from the basic SGLI fund. By comparison, during policy year 1982, $12.9 million was transferred from the basic SGLI fund to subsidize over 400,000 VGLI insureds and cumulatively, over $95 million has been transferred.

As the Statement of Annual Accounting for Policy Year 1982 (Exhibit J) indicates, the Contingency Reserve for the SGLI program as of June 30, 1982 amounted to $244.8 million dollars. The transfer of excess Contingency Reserve funds to the SGLI revolving fund is mandated by law (38 U.S.C. §771). The VA Actuarial Staff and the actuaries for the primary insurer have determined that the Contingency Reserve has reached an adequate level for the amount of insurance at risk. This Reserve fund is held by the primary insurer to meet unplanned contingencies in the SGLI programs. Using the Contingency Reserve fund level of June 30, 1981

($192.6 million) as a base figure in accordance with the contract terms, an excess balance of $36.3 million existed as of the policy year ending June 30, 1982. Consequently, this excess balance (plus interest) was transferred from the Contingency Reserve fund to the SGLI revolving fund for investment purposes. The full amount of the transfer ($37.1 million) included the $36.3 million excess balance as of June 30, 1982 plus $.8 million interest earned from June 30, 1982 until the date of the actual transfer. As of June 30, 1983, SGLI revolving fund investments amounted to $41.2 million. The assets are invested in U.S. Treasury certificates currently earning interest at a rate of 12.25 percent.

As of the policy year which ended June 30, 1983, there was an additional surplus balance of $38.3 million. This balance, plus interest, will be transferred to the SGLI revolving fund as a return of premium to be used for investment purposes. As a result of this transfer, the Contingency Reserve fund level is $192.6 million, and the SGLI revolving fund investments amount to approximately $81 million. We plan to use these surplus reserves to fund a further premium reduction.

In the first 18 policy years under the SGLI program, over $2.2 billion in claims have been paid to over 140,000 beneficiaries. These claims are payable in either a lump sum or 36 equal monthly installments. Installment payments currently include an 8 percent interest factor.

Aside from the annual accounting by OSGLI to the VA, the VA also periodically reviews the SGLI/VGLI operation by visits to the OSGLI. Such meetings further ensure that the programs are efficiently run and foster the working relationship between business and Government.

The uniformed services are responsible for notifying individuals of their eligibility and coverage under SGLI, collecting and accounting for premiums, and forwarding the collections to the VA. The uniformed services are also responsible for notifying OSGLI about the deaths of insured members and the status of their premium payments.

As the Subcommittee is aware, the General Accounting Office (GAO), on May 1, 1980, issued a report entitled "Problems in Administering the Servicemen's Group Life Insurance Program in the Ready Reserve." One of the findings of that report was that some of the branches of the uniformed services were not forwarding to the VA sufficient amounts of money to cover premium costs for all participating reservists.

As a result of the GAO report which concluded that the uniformed services' billing and collection procedures were inadequate, section 402 of Public Law 97-66 was enacted, effective October 17, 1981. This section of Public Law 97-66 requires that the Secretary of Defense shall prescribe regulations to ensure that the military departments remit timely and complete SGLI premium payments. Section 402 is set out as follows:

> "The Secretary of Defense shall prescribe regulations for the administration of the functions of the Secretaries of the military departments under this section. Such regulations shall prescribe such procedures as the Secretary of Defense, after consultation with the Administrator, may consider necessary to ensure that such functions are carried out in a timely and complete manner and in accordance with the provisions of this section, including specifically the provisions of subsection (a)(2) of this section relating to contributions from appropriations made from active duty pay."

Several drafts of regulations to implement section 402 have been exchanged with the Department of Defense (DoD). We are presently awaiting the DoD's final publication of the necessary regulations.

In order to determine the amount of unpaid SGLI premiums due from reserve members, each branch of the uniformed services conducted an audit. As a result of these audits, the DoD Controller determined that from fiscal year 1974 through fiscal year 1980 the total amount owed to the SGLI fund was approximately $6 million. These proceeds have been received by the VA from the appropriate service branches.

I will now turn to the Veterans' Mortgage Life Insurance (VMLI) program. In 1971, Congress authorized the VA to provide mortgage protection life insurance on a group basis to veterans receiving housing grants. Housing grants are available to certain veterans whose severe disabilities, primarily paraplegia, require specially adapted housing. This mortgage protection insurance is provided through a group policy which the Administrator has secured from Bankers Life Insurance Company of Nebraska. The program is administered through the Office of Veterans' Mortgage Life Insurance. A maximum of $40,000 in mortgage insurance protection is afforded to a veteran who receives a housing grant, provided he resides in a residence which he owns and which is encumbered by a mortgage on which he has liability. The protection is automatic unless the veteran declines in writing or fails to furnish required information. The excess mortality costs are subsidized by the VA Compensation appropriation.

If a veteran initially declines insurance, he or she may apply later. If the veteran sells the house and buys another, or refinances the mortgage, he or she may also apply for mortgage insurance protection. When a death claim is received, the

settlement of the proceeds is made to the mortgage holder for the amount of the unpaid mortgage.

There are currently 6,030 active accounts, representing $172.9 million in coverage. Since the inception of the program, 2,094 claims have been paid, representing approximately $39.2 million. The Government bears the administrative costs of the program and all costs for claims in excess of the premiums paid by the insured veterans. The total subsidy through June 30, 1983 amounts to approximately $107 million.

The premiums paid by the VA are deposited in a Contingency Reserve Fund maintained by the commercial insurer. Whenever this fund falls below a $200,000 balance, the VA contributes from the compensation fund a sufficient amount to maintain a minimum balance between $200,000 and $400,000.

I would now like to share the results of two studies of the SDVI program which we have recently completed. We undertook the studies because this is the only VA administered program which is open to new issues, and which does not cover all of its own expenses. Since there are no reserves, the program is operated on a "pay as you go" basis, and relies heavily on the annual appropriation to meet program costs.

The cost of the program to the Government is seen in the fact that in fiscal year 1982, for example, $6.4 million was appropriated to meet the program's current obligations. If no further policies were issued, the future unfunded liability for policies in force would total approximately $589 million. If SDVI policies are issued at a projected average rate of 6,000 policies per year for the next ten years,

the future unfunded liability will total approximately $772 million. Additionally, we have projected that the administrative cost of the program from fiscal year 1982 through fiscal year 1986 will be $2,672,989, an average of over $.5 million a year.

Our first study which was completed in March 1982, developed a profile of new SDVI applicants. The principal characteristics which were noted were age, date of separation, and the degree of the applicant's service-connected disability.

The spread of ages among approved applicants was found to be fairly uniform, ranging from 19 to 53 years, and possessing no discernable pattern.

Service separation dates for approved applicants broke down as follows (also see Exhibit K):

Date of Separation	Percent
1979 - March 1982	60
1974 - 1978	15
Prior to 1974 (Primarily 1969 and 1970)	25

The degree of disablement for approved applicants broke down as follows (also see Exhibit L):

Disability Rating	Percent
0 - 20	50
30 - 70	35
80 - 100	15

Our second study, which was completed in August of this year, developed a profile of SDVI policyholders using information derived from death cases. The principal findings of the study are as follows:

Release From Active Duty To Date Of Rating Of Service-Connected Disability

Years	Percent
0 mos. - 1 yr.	80.4
13 mos. - 2 yrs.	1.1
25 mos. - 3 yrs.	2.2
37 mos. - 4 yrs.	3.3
49 mos. - 5 yrs.	0
61 mos. - 6 yrs.	5.4
73 mos. - 7 yrs.	0
Over 7 yrs.	7.6

Plans Of Insurance

Plans	Percent
Term	47
Ordinary Life	20
20-Payment Life	5
30-Payment Life	16
Endowment Age 60	5
Endowment Age 65	2
Modified Life Age 65	1
Modified Life Age 70	3
Reduced Modified Life Age 65	1

Amount Of Insurance

Face Value	Percent
$ 1,000	1
2,000	1
5,000	7
6,000	1
10,000	90

Percent Of Service-Connected Disability
(Also see Exhibits M and N)

Disability Rating	Percent
100 percent	46
90 percent	-
80 percent	2
70 percent	5
60 percent	7
50 percent	2
40 percent	8
30 percent	9
20 percent	7
10 percent	9
0	5

Service-Connected Death

	Percent
Cause of death was service-connected	56
Cause of death was not service-connected	44

RH Policyholders With VGLI At Death

	Percent
Not eligible for VGLI	48
Eligible for VGLI, never covered	39
Had VGLI, but not at death	4
Had VGLI coverage at death	9

Waiver Of Premiums At Death
(Also see Exhibit O)

	Percent
Yes	65
No	35

The following statistics are based on those deceased SDVI policyholders who were on waiver of premiums at death (65 percent of the study sample):

Waiver of Premiums from the Effective Date
of RH Policy Until Date Of Death (no premiums remitted)

	Percent
Yes	69
No	31*

* Those veterans not on waiver of premiums from their policy effective date went on waiver an average of 7.96 years after date of issue.

Disabled Veterans With "Effective Date Waiver"
Who Died From A Service-Connected Disability

	Percent
Yes	74
No	26

Total Disability Commencing Prior To The Effective Date of RH Policy

	Percent
Yes	60
No	40

Service-Connected Disability Percentages or RH Veterans On Waiver Of Premiums From The Effective Date Of Policy

Disability Percentage	Percent
100	72
80	4
70	9
60	7
30	2
10	6

A related study which is also underway deals with the Gratuitous SDVI program. Gratuitous SDVI is granted post-humously to veterans who otherwise met the basic eligibility requirements for SDVI but did not apply for SDVI because of continued mental incompetency due to a service-connected disability, and who died before the appointment of a guardian or within one year of such appointment. The objective of the Gratuitous SDVI program is to ensure that veterans are not denied the opportunity to apply for Government life insurance on account of mental incompetence resulting from service-connected disabilities. Since no premiums are paid, the program relies upon the yearly appropriation for funding.

As of June 30, 1983, $6,048,500 has been paid in death benefits under the Gratuitous SDVI program. Although relatively small in size, the program is especially significant because it primarily benefits veterans whose disablements are directly related to the rigors of military service or training.

Gratuitous SDVI is granted in an amount which, together with any other USGLI or NSLI in force, totals $10,000. An application for payment of Gratuitous SDVI must be received by the VA within two years from the date of the veteran's death. However, if the claimant is mentally or legally incompetent at the time the right to apply for SDVI expires, he or she may apply within one year after their incompetency ends. Payment of Gratuitous SDVI is made only to the insured's surviving spouse, children or parents, in the order named. The settlement proceeds are payable at the election of the beneficiary in 240 equal monthly installments, or under two available annuity options. Unlike the other VA administered programs, there is no provision for settlement in a lump sum.

Statistics show that many of those veterans whose families file claims for Gratuitous SDVI are covered by other types of Government life insurance at death as well. Of the 50 Gratuitous SDVI cases which have been sampled, 84 percent also had SGLI or VGLI coverage in force. When it is considered that 58 percent of the sampled cases were paid to beneficiaries of veterans who died a month or less after separation, it is not surprising that this "dual coverage" situation exists. SGLI coverage in force during the four month period following separation was the most common type of coverage carried by the sampled veterans. A smaller percentage (14 percent) had VGLI in force.

The listing which follows shows the status of other Government life insurance coverage for the sampled veterans who were granted Gratuitous SDVI after death. Also shown are statistics relating to the disease or injury causing the veteran's death.

Government Life Insurance At Death	Percent
Servicemen's Group Life Insurance	70
Veterans' Group Life Insurance	14
Lapsed	2
Discharged prior to SGLI/VGLI effective date	4
No record	10

Date Of Onset Of Disease Or Injury Until Date Of Separation

	Percent
0 - 15 days	56
16 days - 1 month	7
1 month, 1 day - 6 months	26
6 months, 1 day - 1 year	4
Over 1 year	7

Date Of Separation Until Date Of Death

	Percent
0 - 4 days	45
5 - 10 days	24
11 - 15 days	0

Date Of Separation Until Date Of Death
Continued

	Percent
16 - 20 days	3.5
21 - 29 days	3.5
1 month - 6 months	10
6 months, 1 day, - 1 year	7
Over 1 year	7

As a result of the Supreme Court's decision in the Manhart case and several congressional initiatives which would eliminate sex differentiated annuity tables, we have reviewed the potential impact on our programs.

No premium payments in VA administered or supervised insurance programs differ because of the sex of the insured. Beneficiary payments under the SGLI/VGLI program are limited to lump sum or 36 monthly installments, and therefore are not sex differentiated. However, sex differentiated mortality tables are used for certain annuities in the VSLI, VRI and SDVI programs. These tables provide for lower monthly payments and longer guaranteed payment periods for women annuitants because it is expected that women annuitants will, on the average, receive the payments over a longer period.

Although the VA currently pays annuities under these programs to about 198,000 individuals, only 9,400 are receiving annuities based on tables which differentiate between male and female recipients, and of this latter group 1,360 are women. Virtually all (1,290) of the women annuitants are receiving proceeds in this manner because of the insured's or the beneficiary's own choice. A small number (70) are

veterans or beneficiaries receiving the proceeds of a matured endowment policy or a cash surrender. We have estimated that there would be only a minimal cost to increase the payments to female annuitants to the same amounts paid to male annuitants at the same age. The total annual cost for all programs combined would be approximately $60,000. We are considering a legislative proposal which would eliminate sex differentiation in Government life insurance annuity payments.

Finally, I would like to turn to the Insurance ADP System Redesign Project which is currently underway. The redesign was precipitated by the fact that the existing system has become antiquated and difficult to maintain and/or modify.

The redesign involves replacing a second generation ADP system, which relies on fixed master records, outdated program language (IBM 7080 Autocoder) and Optical Character Recognition input documents, with a state of the art system having a flexible data base, and on-line inquiry and data entry capabilities.

The first phase of this project was completed in June of this year with the introduction of an insurance inquiry system, which enables us to instantaneously call up an insured's record on a video display terminal. Previously we had to request a printout of the record, which was accomplished overnight. With the new system, our Special Service clerks can answer most telephone inquiries immediately. We also anticipate improvement on timeliness in responding to correspondence.

During the next phase of the project, which will extend through 1986, we will be developing data entry capability, which will allow us to update an insured's records through the video display terminals. Once this project is complete, we will have a system which is more flexible and responsive to our own administrative needs and, more importantly, to the needs of our insureds.

Mr. Chairman, this concludes my prepared remarks. I shall be pleased to answer any questions you may have.

EXHIBIT A

UNITED STATES GOVERNMENT LIFE INSURANCE
EXHIBIT OF INSURANCE IN-FORCE FOR JULY 1, 1982 THROUGH JUNE 30, 1983

	FULLY PAID-UP AND ALL PREMIUM PAYING PLANS EXCEPT FIVE-YEAR TERM		FIVE-YEAR TERM		NON-FORFEITURE REDUCED PAID-UP & EXTENDED		TOTAL	
	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance
IN-FORCE BEGINNING OF YEAR.....	83,856	$336,822,876	442	$2,804,588	1,370	$3,889,556	85,668	$343,517,020
RESTORATIONS.....	3	21,000	0	0	XXX	XXX	3	21,000
CONVERSIONS.....	14	99,000	-14	-99,000	XXX	XXX	XXX	XXX
TOTAL BEFORE TERMINATIONS.....	83,873	336,942,876	428	2,705,588	1,370	3,889,556	85,671	343,538,020
INSURANCE TERMINATED BY:								
DEATH.....	6,406	28,835,623	16	108,938	143	400,409	6,565	29,344,970
T & P DISABILITY.....	3	14,289	1	3,000	0	0	4	17,289
MATURITY AS ENDOWMENT.....	421	2,244,266	XXX	XXX	3	5,342	424	2,249,608
SURRENDER FOR CASH.....	466	1,913,730	XXX	XXX	6	11,615	472	1,925,345
LAPSE.....	40	176,621	1	5,000	XXX	XXX	41	181,621
EXPIRY.....	XXX	XXX	XXX	XXX	51	112,169	51	112,169
NET CHGS. TO PD. UP & EXT....	10	44,500	XXX	XXX	-10	-22,357	XXX	22,143
OTHER NET CHGS. INCL. REDUCT.	-254	-1,375,624	0	-4,000	7	31,193	-247	-1,348,431
TOTAL TERMINATIONS.....	7,092	31,853,405	18	112,938	200	538,371	7,310	32,504,714
IN-FORCE END OF YEAR.....	76,781	$305,089,471	410	$2,592,650	1,170	$3,351,185	78,361	$311,033,306

DISTRIBUTION BY PLAN OF TOTAL IN-FORCE END OF YEAR

	Number	Amount		Number	Amount
5-YEAR TERM.....	410	$ 2,592,650	ENDOWMENT AT 62...	5	$ 11,000
ORDINARY LIFE....	22,225	114,892,771	ENDOWMENT AT 96:		
20-PAYMENT LIFE..	47,333	148,377,033	WITH WAIVER.....	1,019	6,635,000
30-PAYMENT LIFE..	5,686	31,915,365	WITHOUT WAIVER....	431	2,687,302
20-YEAR ENDOWMENT	7	42,000	EXTENDED INSURANCE	241	625,259
30-YEAR ENDOWMENT	75	529,000	PAID-UP INSURANCE.	929	2,725,926
			TOTAL.....	78,361	$311,033,306
INSURANCE IN-FORCE WITH TOTAL DISABILITY INCOME PROVISION.....				613	$ 4,112,000
TOTAL DISABILITY INCOME INSURANCE ISSUED DURING YEAR.....				0	0

UNITED STATES GOVERNMENT LIFE INSURANCE FUND (Participating)

SUMMARY OF OPERATIONS
(Accrual Basis)

	INCOME	YEAR ENDING JUNE 30, 1983	CUMULATIVE TOTALS FROM ORIGIN JANUARY 1919 TO JUNE 30, 1983
1.	Life Insurance Premiums	$ 83,424	$2,064,746,323
2.	TDIP Premiums	3,158	20,268,984
3.	Policy Proceeds Left to be Paid in Installments	464,570	782,761,586
4.	Dividends Left on Credit or Deposit	3,256,571	84,996,100
5.	Investment Income	27,086,133	2,215,745,649
6.	U. S. Contributions	22,451	142,410,180
7.	TOTAL (Items 1 to 6)	30,916,307	5,310,928,822
	DISPOSITION OF INCOME		
8.	Death Benefits	29,555,646	1,552,542,660
9.	Matured Endowments	775,736	499,219,781
10.	Surrender Benefits	1,691,009	324,611,031
11.	Disability Benefits:		
	a. Total Permanent Disability	-14,463	352,399,594
	b. Premium Waiver	134,907	5,700,068
	c. Total Disability Income	383,085	29,780,542
12.	Payments from Policy Proceeds Left to be Paid in Installments	10,339,161	1,063,865,435
13.	Dividends Withdrawn	4,993,200	86,190,009
14.	Net Deposits for Policy Reserves:		
	a. All Except TDIP	-32,517,705	317,696,462
	b. TDIP	141,277	2,639,077
15.	Net Increase in Dividend Credit or Deposit Account	-345,919	20,507,098
16.	Liens Written Off and Adjustment in Undelivered Check Account	-260,322	526,757
17.	TOTAL (Items 8 to 16)	14,875,612	4,255,678,514
18.	Net Gain from Operations Before Dividends	16,040,695	1,055,250,308
19.	Dividends to Policyholders	18,076,436	1,047,185,798
20.	Gain (+) or Loss (-) After Dividends	-2,035,741	8,064,510

INSURANCE TRUST FUND INVESTMENTS

As of June 30, 1983

U. S. Government Securities

Fund	NSLI (V)	USGLI (K)	VSLI (RS/W)	VRI (J,JR,JS)
General Authority	38 U.S.C. 720(b)	38 U.S.C. 755(b)	38 U.S.C. 723(c)	38 U.S.C. 725(d)
Formula for Obtaining the Yield on U.S. Security Investments	(The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years.) (Minus 1/4%) Calculated as of the end of the preceding month.	(The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years.) (Minus 1/2%) Calculated as of the end of the preceding month.	The average rate of interest (coupon rate) borne by all marketable interest-bearing obligations of the U.S., forming a part of the public debt that are not due or callable until after at least 5 years from the date of original issue.	(The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 4 years.) Calculated as of the end of the preceding month.
Portfolio Arrangement	All new and roll-over investments are spread in equal amounts over periods of 1 to 15 years, with June 30 maturity dates.			
Formula Established By	1960 Agreement between the VA and Treasury (as amended in July 1967).	1960 Agreement between the VA and Treasury	PL 85-896	PL 88-664
Amount Invested in U.S. Gov't Securities	$8,851,395,000	$332,992,000	$820,432,000	$511,214,000
Average Rate of Return on all Investments in U.S. Securities	8.975%	7.354%	8.164%	9.251%
Interest Rate on New Investments in U.S. Securities	10.49%	10.25%	10.87%	10.74%
		Policy Loans		
Amount Invested in Policy Loans	$1,161,335,732	$35,870,020	$81,985,913	$43,911,866
Percentage of Trust Fund Investments in Policy Loans	11.60%	9.72%	9.09%	7.91%
Average Rate of Return on Policy Loans	4.910%	4.338%	5.687%	5.862%
		Total Investments		
Amount	$10,012,730,732	$368,862,020	$902,417,913	$555,125,866
Rate of Return on all Investments (Loans and U.S. Securities)	8.503%	7.060%	7.939%	8.983%

"V" INSURANCE - AGE 60 - EFFECTIVE 1982

NET YEARLY PREMIUM PAYMENT PER $1,000 BASED ON 1983 DIVIDEND SCALE

POLICY YEAR	FIVE YEAR TERM PLAN			ORDINARY LIFE PLAN		
	ANNUAL PREMIUM	- DIVIDEND	= NET COST	ANNUAL PREMIUM	- DIVIDEND	= NET COST
1	$30.78	$14.88	$15.90	$59.91	$18.00	$41.91
2	30.78	15.36	15.42	59.91	20.16	39.75
3	30.78	15.12	15.66	59.91	22.08	37.83
4	30.78	14.76	16.02	59.91	23.88	36.03
5	30.78	14.76	16.02	59.91	26.04	33.87
*6	**47.00	15.00	32.00	59.91	28.32	31.59
7	47.00	14.52	32.48	59.91	30.12	29.79

* AT THIS POINT, THE NET COST OF AN ORDINARY LIFE PLAN BECOMES CHEAPER THAN A TERM PLAN.

** THE BEGINNING OF THE NEXT FIVE YEAR RENEWAL PERIOD.

NOTE: DIVIDEND SHOWN ARE NEITHER ESTIMATES NOR GUARANTEES, BUT ARE BASED ON THE VETERANS ADMINISTRATION'S 1983 DIVIDEND SCALE. THIS EXHIBIT DOES NOT TAKE INTO CONSIDERATION THE TIME VALUE OF MONEY.

EXHIBIT D

EXHIBIT E

NATIONAL SERVICE REOPENED LIFE INSURANCE
EXHIBIT OF INSURANCE IN-FORCE (J, JR AND JS) FOR JULY 1, 1982 THROUGH JUNE 30, 1983

	J INSURANCE		JR INSURANCE		JS INSURANCE		TOTAL	
	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance
IN-FORCE BEGINNING OF YEAR.....	139,092	$964,010,482	21,490	$135,019,186	277	$1,351,658	160,859	$1,100,381,326
ISSUES.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
RESTORATIONS.....	1,121	4,222,175	163	559,970	1	10,000	1,285	4,792,145
NET SPLITS & CONSOLIDATIONS..	0	XXX	0	XXX	0	XXX	0	XXX
TOTAL BEFORE TERMINATIONS.....	140,213	968,232,657	21,653	135,579,156	278	1,361,658	162,144	1,105,173,471
INSURANCE TERMINATED BY:								
DEATH.....	2,161	14,015,689	495	2,930,411	11	43,372	2,667	16,989,472
MATURITY AS ENDOWMENT.....	1,217	7,992,217	233	1,483,781	6	38,000	1,456	9,473,998
SURRENDER FOR CASH.....	529	3,772,634	89	607,829	1	10,000	619	4,390,463
LAPSE.....	122	664,250	26	124,500	XXX	XXX	148	788,750
EXPIRY.....	139	1,081,505	24	136,436	1	10,000	164	1,227,941
NET CHANGES TO PD. UP & EXT..	XXX	230,533	XXX	43,867	XXX	XXX	XXX	274,400
OTHER NET CHGS. INCL. REDUCT.	2	5,950,090	-2	793,136	0	0	0	6,743,226
TOTAL TERMINATIONS.....	4,170	33,706,918	865	6,079,960	19	101,372	5,054	39,888,250
IN-FORCE END OF YEAR.....	136,043	$934,525,739	20,788	$129,499,196	259	$1,260,286	157,090	$1,065,285,221
DIST. OF IN-FORCE BY PLAN:								
MODIFIED LIFE 65.....	19,366	$135,890,990	3,241	$20,230,565	XXX	XXX	22,607	$156,121,555
MODIFIED LIFE 70.....	13,371	97,788,215	1,274	7,784,000	XXX	XXX	14,645	105,572,215
ORDINARY LIFE.....	43,960	304,949,935	5,170	34,541,312	XXX	XXX	49,130	339,491,247
20-PAYMENT LIFE.....	34,136	219,452,641	5,438	31,873,135	XXX	XXX	39,574	251,325,776
30-PAYMENT LIFE.....	4,172	31,130,900	1,802	9,811,382	XXX	XXX	5,974	40,942,282
20-YEAR ENDOWMENT.....	11,060	73,265,856	2,125	13,484,180	XXX	XXX	13,185	86,750,036
ENDOWMENT AT 60.....	2,857	21,308,288	579	4,152,488	XXX	XXX	3,436	25,460,776
ENDOWMENT AT 65.....	5,436	39,142,130	895	6,250,583	XXX	XXX	6,331	45,392,713
EXTENDED INSURANCE.....	1,615	11,438,379	214	1,282,503	2	10,000	1,831	12,730,882
PAID-UP INSURANCE.....	70	158,405	50	89,048	257	1,250,286	377	1,497,739
TOTALS.....	136,043	$934,525,739	20,788	$129,499,196	259	$1,260,286	157,090	$1,065,285,221
TDIP IN-FORCE END OF YEAR.....	8,698	$65,328,981	XXX	XXX	XXX	XXX	8,698	$65,328,981
TDIP ISSUED DURING YEAR.....	4	21,500	XXX	XXX	XXX	XXX	4	21,500

SERVICE-DISABLED VETERANS INSURANCE (Nonparticipating)

EXHIBIT OF INSURANCE IN-FORCE JULY 1, 1982 THROUGH JUNE 30, 1983

	RH INSURANCE	
	No. of Policies	Face Amount of Insurance
IN-FORCE BEGINNING OF YEAR	191,666	$1,737,093,148
ISSUES	5,839	54,290,048
RESTORATIONS	72	685,000
EXCHANGES (RS to W only)	XXX	XXX
CONVERSIONS (RS to W only)	XXX	XXX
NET SPLITS & CONSOLIDATIONS	0	XXX
TOTAL BEFORE TERMINATIONS	197,577	$1,792,068,196
INSURANCE TERMINATED BY:		
DEATH	2,226	19,877,954
MATURITY AS ENDOWMENT	72	368,697
SURRENDER FOR CASH	1,782	15,548,727
LAPSE	2,394	23,096,500
EXPIRY	425	3,572,488
NET CHANGES TO PAID-UP & EXTENDED	XXX	307,080
OTHER NET CHANGES INCLUDING REDUCTION	9	766,250
TOTAL TERMINATIONS	6,908	63,537,696
IN-FORCE END OF YEAR	190,669	$1,728,530,500
DISTRIBUTION OF IN-FORCE BY PLAN:		
5-YR. LEVEL PREMIUM TERM	87,364	$840,831,000
5-YR. LTD. CONVERTIBLE TERM	XXX	XXX
MODIFIED LIFE 65	7,817	66,413,846
MODIFIED LIFE 70	6,548	56,313,750
ORDINARY LIFE	32,231	277,346,700
20-PAYMENT LIFE	28,165	249,978,911
30-PAYMENT LIFE	12,191	106,564,000
20-YEAR ENDOWMENT	5,495	41,736,500
ENDOWMENT AT 60	3,606	30,101,000
ENDOWMENT AT 65	2,797	24,075,000
EXTENDED INSURANCE	4,375	34,972,383
PAID-UP INSURANCE	80	197,410
TOTAL	190,669	$1,728,530,500
TDIP IN-FORCE END OF YEAR (ND-10)	XXX	XXX
TDIP IN-FORCE END OF YEAR (ND-10)	XXX	XXX
TDIP ISSUED DURING YEAR (ND-10-65)	XXX	XXX
TDIP EXCHG. DURING YEAR (ND-10-65)	XXX	XXX

EXHIBIT F

SERVICE-DISABLED VETERANS INSURANCE FUND (Nonparticipating)

SUMMARY OF OPERATIONS
(Accrual Basis)

	INCOME	YEAR ENDING JUNE 30, 1983	CUMULATIVE TOTALS FROM ORIGIN APRIL 1951 TO JUNE 30, 1983
1.	LIFE INSURANCE PREMIUMS	$ 29,720,396	$ 376,673,499
2.	POLICY PROCEEDS LEFT TO BE PAID IN INSTALLMENTS	500,000	26,276,011
3.	INVESTMENT INCOME	1,955,563	14,834,825
4.	TOTAL (ITEMS 1 TO 3)	32,175,959	417,784,335
	DISPOSITION OF INCOME		
5.	DEATH BENEFITS	20,527,326	306,371,629
6.	MATURED ENDOWMENTS	349,173	3,476,894
7.	SURRENDER BENEFITS	4,932,290	31,764,247
8.	DISABILITY BENEFITS: PREMIUM WAIVER	8,875,732	105,328,353
9.	PAYMENTS FROM POLICY PROCEEDS LEFT TO BE PAID IN INSTALLMENTS	838,508	24,221,240
10.	NET DEPOSITS FOR POLICY RESERVES	12,335,117	217,378,415
11.	LIENS WRITTEN OFF AND ADJUSTMENT IN UNDELIVERED CHECK ACCOUNT	-2,915	123,844
12.	TOTAL (ITEMS 5 TO 11)	47,855,231	688,664,622
13.	NET LOSS (-) FROM OPERATIONS	-15,679,272	-270,880,287*

* CUMULATIVE LOSS TO DATE IN THE EVENT OF LIQUIDATION. OF THIS LOSS, $90.46 MILLION HAS BEEN MET BY GOVERNMENT APPROPRIATIONS. THE BALANCE IS OWED (LIABILITIES LESS ASSETS).

EXHIBIT G

ANNUAL DEATH RATE PER THOUSAND (TREND)

CALENDAR YEAR	ACTIVE DUTY ONLY*	120-DAY POST-SEPARATION ONLY	ACTIVE DUTY AND POST-SEPARATION
1966	1.49	3.39	1.60
1967	1.52	3.21	1.63
1968	1.68	3.05	1.80
1969	1.64	2.92	1.76
1970	1.57	2.93	1.72
1971	1.56	2.68	1.69
1972	1.51	3.39	1.69
1973	1.43	3.41	1.59
1974	1.30	3.00	1.43
1975	1.33	3.46	1.49
1976	1.17	2.93	1.30
1977	1.21	2.73	1.33
1978	1.20	2.26	1.28
1979	1.16	2.09	1.23
1980	1.15	2.00	1.21
1981	1.13	2.01	1.19
1982	1.06	2.14	1.13

* Excluding Vietnam experience

EXHIBIT H

PREMIUM RATES SUMMARIZED

SGLI COVERAGE:

The following represents the premium rates applicable to insurance made available by Public Law 93-289.

FULL-TIME COVERAGE - Active Duty Servicemen, Ready Reservists including Army and Air National Guard.

Insurance Amount	Monthly Premium (all Ages)
$35,000	$4.06
30,000	3.48
25,000	2.90
20,000	2.32
15,000	1.74
10,000	1.16
5,000	.58

RESERVISTS WITH PART-TIME COVERAGE -

Amount	Annual Premium (all ages)
$35,000	$3.50
30,000	3.00
25,000	2.50
20,000	2.00
15,000	1.50
10,000	1.00
5,000	.50

RETIRED RESERVISTS - who have reached their 61st birthday and who have not received their first increment of retired pay.

	MONTHLY PREMIUM						
Age	$35,000	$30,000	$25,000	$20,000	$15,000	$10,000	$5,000
Through 39	$10.50	$ 9.00	$ 7.50	$ 6.00	$4.50	$3.00	$1.50
40 through 49	14.00	12.00	10.00	8.00	6.00	4.00	2.00
50 and over	17.50	15.00	12.50	10.00	7.50	5.00	2.50

VGLI COVERAGE -

VGLI - Five-Year Term policy following 120-day free SGLI coverage.

	MONTHLY PREMIUM						
Age	$35,000	$30,000	$25,000	$20,000	$15,000	$10,000	$5,000
34 and under	$ 5.95	$ 5.10	$4.25	$3.40	$2.55	$1.70	$ .85
35 and over	11.90	10.20	8.50	6.80	5.10	3.40	1.70

EXHIBIT I

SGLI (SERVICEMEN'S GROUP LIFE INSURANCE)
(ACTIVE DUTY; READY AND PART-TIME RESERVISTS; 120-DAY POST-SEPARATEES)

STATEMENT OF OPERATIONS
(ACCRUAL BASIS)

INCOME	POLICY YEAR 1982	CUMULATIVE FROM SEPT. 29, 1965
SERVICE PERSONNEL PREMIUMS	$166,666,856	$1,700,838,794
These are incurred service personnel premiums, all of which are remitted to the primary insurer with the exception of $703,603 for the PY and $6,309,151* cumulative.		
EXTRA HAZARD PAYMENTS	1,425,000	508,247,406
This is the amount required by law for extra hazard.		
INTEREST EARNED	27,018,079	139,621,716
This is the interest earned on the invested funds, less any interest paid to beneficiaries or credited to the conversion pool fund.		
TOTAL	$195,109,935	$2,348,707,916
DISPOSITION OF INCOME		
DEATH CLAIMS	116,880,272	1,869,108,180
This is the face amount of all death claims incurred, including an estimate for the unreported.		
NET COST OF EXTRA MORTALITY ON CONVERSIONS	-2,695,860	33,304,493
This is the amount deposited in the conversion pool for substandard conversions.		
EXPENSES OF ADMINISTRATION	1,252,046	20,727,855
These are the VA's and the primary insurer's expenses and all reinsurers' expenses and risk charges. VA's expenses were $264,947 for the PY and $3,762,407 cumulative.		

* These amounts are VA expenses. The Retired Reserve portions are $216,774 for the PY and $828,333 cumulative. The VGLI portions are $221,882 and $1,718,411.

EXHIBIT J
(Page 1 of 2)

STATEMENT OF OPERATIONS
(Continued)

DISPOSITION OF INCOME	POLICY YEAR 1982	CUMULATIVE FROM SEPT. 29, 1965
TAXES AND FEES	$ 3,158,937	$ 36,484,935
These are premium taxes, licenses and fees payable to States.		
DEPOSIT OR ADJUSTMENT TO POST-SEPARATION INSURANCE SUBFUND	831,640	2,608,904
This represents the cost of the paid-up insurance on those in the separation period at the end of the FY.		
TRANSFER TO RETIRED RESERVES	10,620,280*	46,642,266
TRANSFER TO VGLI	12,921,340	95,052,521
CONTINGENCY RESERVE	52,141,280	244,778,762**
This is a balancing figure.		
TOTAL	$195,109,935	$2,348,707,916

* $7,499,797 of this transfer was for the increase in actuarial reserves required due to the increase in maximum Retired Reservist coverage from $20,000 to $35,000.

** $36,246,751 of the Contingency Reserve was deposited, in the revolving fund established under title 38, United States Code, section 769(d)(1) in the Treasury of the United States, as a return of premium. These funds have been invested by the Secretary of the Treasury in special interest-bearing obligations of the United States.

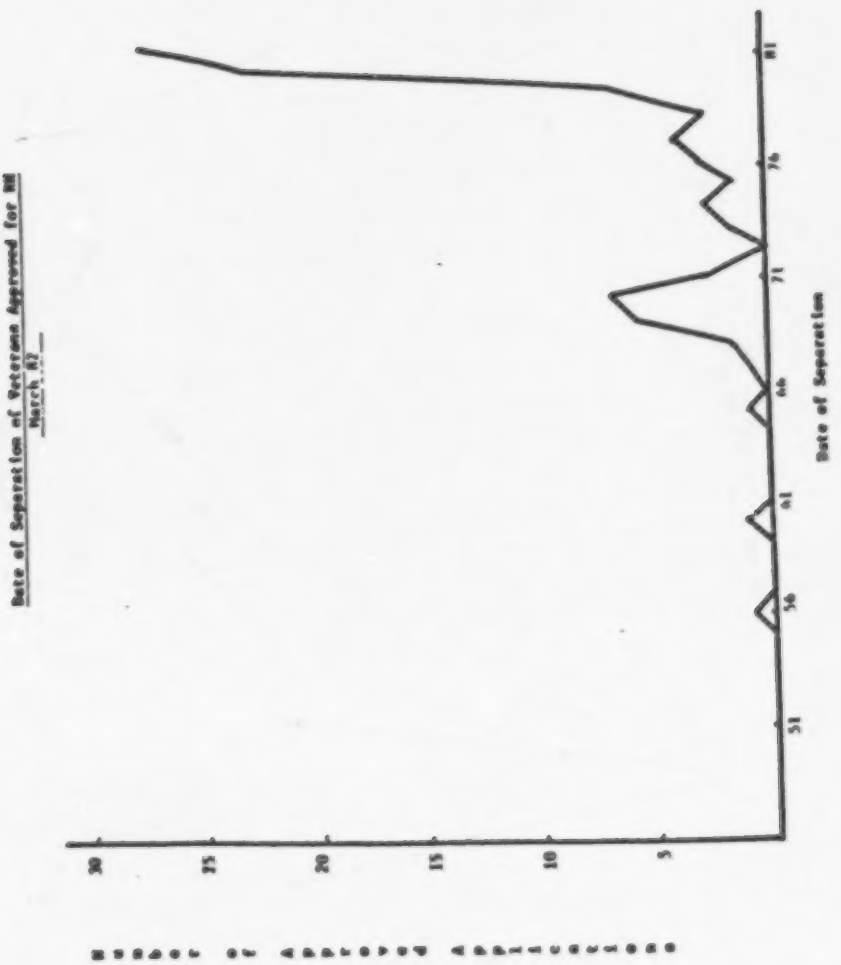

Date of Separation of Veterans Approved for BH
March 62
Date of Separation
81
76
71
66
61
56
51
30
25
20
15
10
5

EXHIBIT K

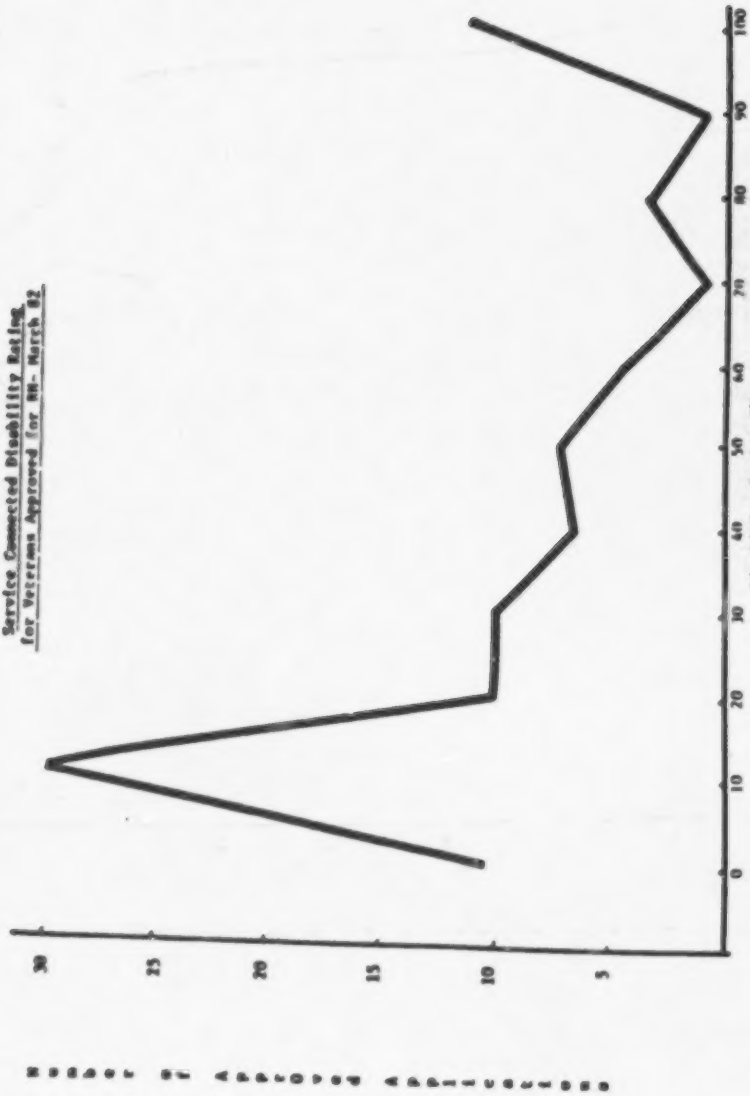

Service Connected Disability Rating
for Veterans Approved for MR- March 82
Disability Rating (%)
0
10
20
30
40
50
60
70
80
90
100

EXHIBIT L

Profile of Deceased RH Policyholders by Combined Degree of Service-Connected Disability

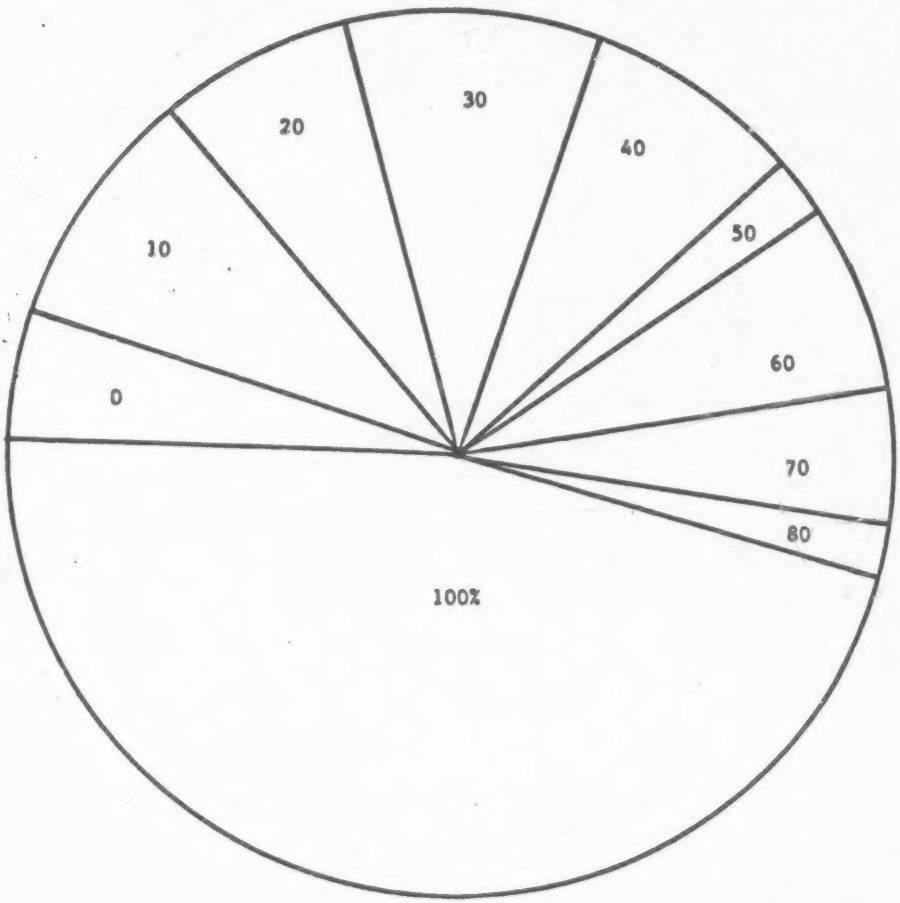


EXHIBIT M

Profile of Veterans by Combined Degree of Service - Connected Disability

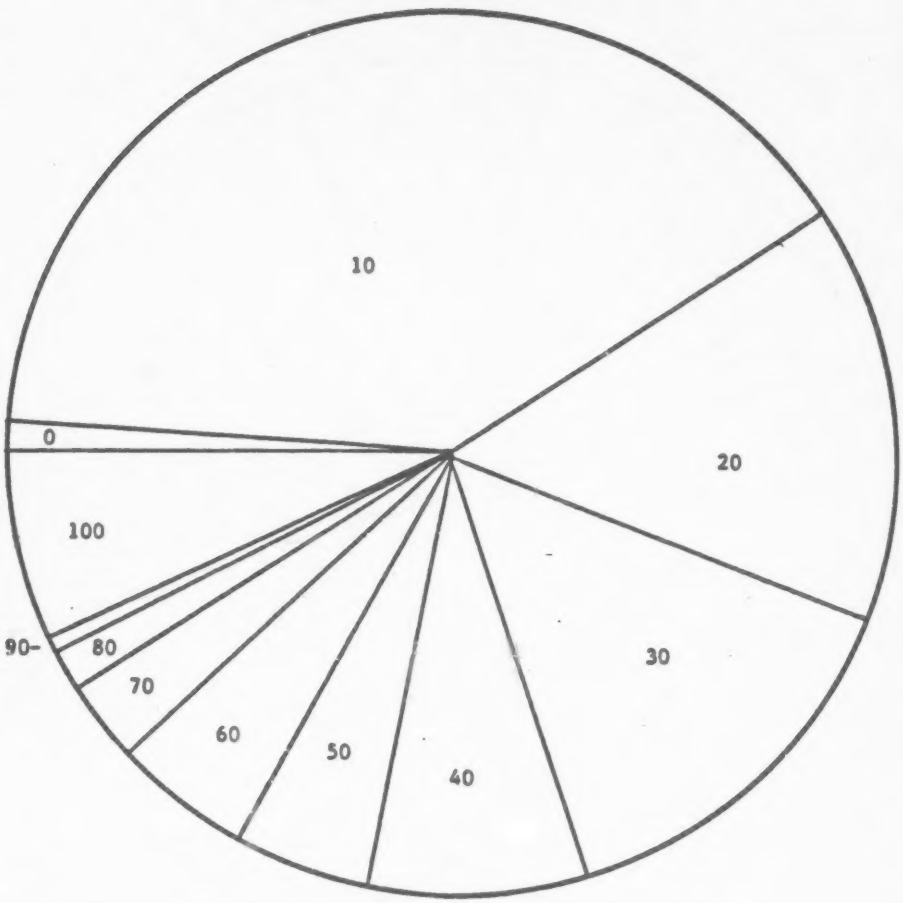
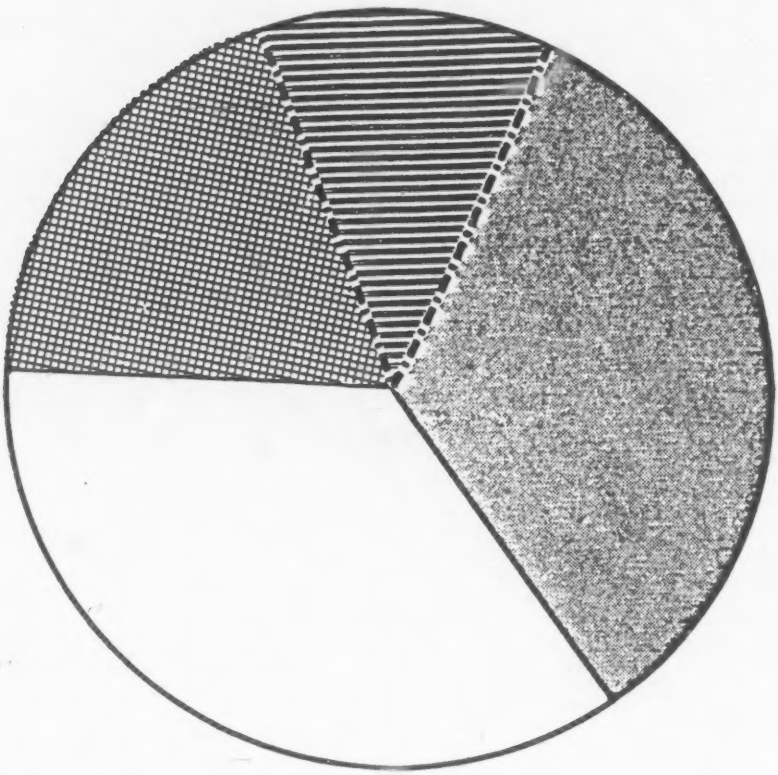


EXHIBIT N

Waiver of Premiums - RH Policyholders



never granted waiver

granted waiver at effective date of policy (until death)

on waiver at death

granted waiver at effective date of policy (until death) and died of a service-connected disability

EXHIBIT O

REMARKS OF HON. BOB MCEWEN BEFORE THE SUBCOMMITTEE ON COMPENSATION, PENSION, AND INSURANCE HEARING TO REVIEW VA INSURANCE PROGRAMS FOR VETERANS, OCTOBER 4, 1983

Thank you, Mr. Chairman.

The various veterans insurance programs which are administered by the Veterans Administration involve billions of dollars and millions of veterans and their beneficiaries. The program is one of great interest to the Congress and to the American people. I commend you for scheduling these hearings in order that our Subcommittee can carry out its oversight responsibility in this area.

Mr. Chairman, with increasing frequency we hear that aging World War II veterans who still have term national service life insurance are having increasing difficulty paying their premiums which increase every 5 years. When the veteran reaches the age of 75, the premium can be as much as $90 dollars per month on a $10,000 policy offset, of course, by the annual dividend.

It is my understanding that last year the VA determined that similar insurance for veterans of World War I was declared to be "paid up." I would hope that our witnesses this morning would discuss this problem and explain the pros and cons of declaring the World War II policies to be paid up at a certain age.

Mr. Chairman, one of our principal witnesses this morning is Mr. Mel Melidosian, the Director of the VA Regional Office and insurance center in Philadelphia, Pa. Mr. Melidosian is an outstanding public servant. He has received every major award of the Veterans Administration, citations from each of the major veterans organizations, and the very prestigious "Distinguished Career Executive Award" from the President of the United States. He has been of great assistance to this committee and its staff over the years and I want to join with you in extending our thanks and commendation to him together with a warm welcome as he comes to us today.

Thank you, Mr. Chairman.

STATEMENT OF RICHARD W. JOHNSON, JR., NATIONAL LEGISLATIVE DIRECTOR
NON COMMISSIONED OFFICERS ASSOCIATION

Mr. Chairman, the Non Commissioned Officers Association of the USA commends the Committee for the fine work it has done in providing for the insurance needs of our Nation's servicemembers and veterans. The constant attention given this issue is reflected in the success of these programs. NCOA's more than 250,000 associated members deeply appreciate your continuing concern and the opportunity provided us to testify here this morning.

Notwithstanding the measurable success of veterans' insurance programs, NCOA believes improvement can be offered in two areas. First, the Association recommends an increase in coverage limits from the current maximum of $35,000 to $100,000 in SGLI and VGLI policies. Second, NCOA recommends an increase in the coverage limits imposed on Service Disabled Life Insurance Policies.

SGLI/VGLI

Under current law, servicemembers are limited to the purchase of $35,000 in SGLI coverage. Veterans are limited to the purchase of VGLI coverage in an amount no greater than the value of the SGLI coverage held at time of discharge. NCOA believes these limits are artifically low even in view of the adjustment made during the 97th Congress.

Mr. Chairman, in past testimony on this issue NCOA has compared the value of SGLI coverage to military pay. We have also discussed the value of insurance programs offered military personnel in comparison with programs available to federal civilian employees. In summary, the value of SGLI/VGLI coverage has been substantially eroded by inflation and military pay increases. VGLI and SGLI benefits no longer replace the same ratio of income as they once did. Insurance programs offered to federal civilian workers continue to provide significantly higher coverage limits allowing the most junior federal employee to purchase subsidized insurance totaling twice the annual salary plus $2,000 and optional group coverage of five times the annual salary. Under this program, a GS-1, Step 1, can purchase $65,000 in government-sponsored group life insurance plus up to $5,000 coverage for a spouse and $2,500 for each child.

The individual who serves in today's armed forces accepts considerable risks related to service. In many service occupations, it is difficult and expensive to obtain civilian insurance coverage that does not contain "war risk" exclusions. Too frequently, servicemembers are not able to supplement their SGLI because of high premi-

ums or a lack of understanding of the true inadequacy of SGLI coverage. As a result, many are inadequately insured to provide for the needs of their survivors.

Congress recently considered increasing coverage limits for servicemembers by an optional $65,000. The proposal, which was supported by the Services and the Senate, was rejected during the Conference on S 675, the Defense Authorization Bill. The deletion of this provision disappointed NCOA, yet we recognize the proposal fell outside the jurisdiction of the conferees. We are hopeful, however, this committee will recognize the wisdom of that proposal and advance legislation on the issue.

SDVI

The Association's second area of concern is the inadequacy of Service Disabled Veterans Insurance. Unlike SGLI and VGLI, this program is not self supporting. That is to say, an annual appropriation is required to offset the losses incurred in insuring ". . . substandard risks at standard premium rates." SDVI coverage is curently limited to $10,000. Once again NCOA asserts this limit is artificially low.

The "substandard risk" referred to in the description of the SDVI program is a veteran with a service connected disability—a disability that frequently is viewed by civilian insurance companies as an unacceptable risk. Those disabled veterans who are able to secure civilian insurance pay much higher premiums.

Mr. Chairman, we perceive an inequity in this system. We believe the disabled veteran should be able to purchase insurance coverage in the same amount and for the same amount as is available to other veterans but for the service connected disability. It is unfair to deny veterans disabled by service the same conversion protection offered to non-disabled veterans. Both have the right to convert veterans insurance to equal amounts of commercial insurance, but at such significantly different premium rates as to effectively deny the disabled veteran full coverage.

By increasing the amount of SDVI coverage allowed so that a disabled veteran is required to purchase less commercial insurance, a balance of premiums can be reached. Regretably, NCOA does not have the resources to suggest an adequate solution. However, we believe the VA has the resources to take the average cost difference in commercial policies for disabled and non-disabled veterans and determine from those figures the amount of additional subsidized SDVI coverage necessary to offset those premium differences.

We recommend an examination of these differences and an appropriate increase in SDVI coverage.

Thank you.

STATEMENT OF MAX J. BEILKE, LEGISLATIVE COUNSEL, THE NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

Mr. Chairman, and members of this subcommittee, I welcome the opportunity to present the views of the National Association for Uniformed Services to this distinguished panel.

The National Association for Uniformed Services (NAUS) is unique in that our membership represents all ranks of career and non-career service personnel and their wives and widows. Our membership includes active, retired, and reserve personnel of all seven uniformed services: Army, Navy, Air Force, Marines, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration. With such a membership, we are able to draw information from a broad base for our legislative activities.

NAUS has been a long time supporter of increasing the maximum level of life insurance coverage under the Servicemen's and Veterans' Group Life Insurance (SGLI/VGLI) programs. Today is no different, NAUS gives its unqualified support to increasing the current maximum coverage of $35,000.

The current level of $35,000 is much too low for the current economic climates. For many of our young service members, SGLI will be their sole insurance coverage. Thirty-five thousand dollars is hardly an enormous legacy to leave a spouse and children, therefore many service members feel a need to seek additional coverage from private insurance companies. One problem encountered is that some private insurance comnpanies do not care to insure military personnel or they do so only with military service disclaimer clauses and/or increased premium rates.

The SGLI program is one that our service personnel can trust and is readily understandable. Further, information describing the program is available from the Department of Defense and the Veterans' Administration.

Civil Service and postal service employees have for many years had government sponsored insurance available to them with a higher face value than that which has

been available to the military person under the SGLI/VGLI program. NAUS feels it vitally important that Congress approve an increase in SGLI coverage that will narrow the gap between the programs available to Civil Service employees and that currently available to military personnel.

The provision allowing VGLI policyholders to convert to a commercial whole life plan at the end of the five year period of coverage without a physical examination is important. Without this provision, many VGLI policyholders, would be without coverage or only at an extremely high cost. Because many of our veterans may physically qualify only for VGLI program conversions, it becomes even more imperative that an increase in the current coverage be approved.

While, an increase will benefit everyone, its importance to career personnel cannot be overstated. An increase will definitely be an asset and permit them to better structure their estate plans.

There is one other item NAUS would like to address concerning VGLI. Under current regulation, VGLI premiums cannot be paid by allotment from the servicemember's retired pay. NAUS supports a policy change which will allow direct payment of VGLI premiums to be made by the service finance centers. Advantages of allowing deductions from retired pay are:

At time of retirement, a retiree could initiate an allotment effective 120 days following retirement date, to convert from SGLI/VGLI.

Eliminates the possibility of a coverage lapse.

Facilitates subsequent conversion of VGLI to commercial whole life and initiation of an allotment for premium from retired pay.

NAUS appreciates the opportunity to present its views of this subject, and the interest displayed by this committee on matters of importance to this nation's veterans.

At this time, I am prepared to respond to questions.

STATEMENT OF THE RETIRED OFFICERS ASSOCIATION, PRESENTED BY JOHN F. WANAMAKER, U.S. NAVY, RETIRED, DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS

I am Commander John F. Wanamaker, U.S. Navy, Retired, Deputy Director, Legislative Affairs of The Retired Officers Association (TROA) which has its national headquarters at 201 N. Washington Street, Alexandria, Virginia. Our association has a membership of over 323,000 former and active duty officers of the seven Uniformed Services. Included in our membership are approximately 37,000 widows of former members.

I want to thank this committee for providing us this opportunity to express our views on the various insurance programs administered by the Veterans administration.

The SGLI program enables a servicemember on active duty to purchase group life insurance in increments of $5,000 up to a maximum of $35,000 face value. This insurance is also made available to Reservists until they first become eligible to receive retired pay at age 60. This program is self supporting with the insured paying the cost of all claims (exception—the government would defray the added expense if the mortality rate exceeds that of the civilian population). The participation rate exceeds 95 percent of the more than 2 million active duty servicemembers who are eligible.

The one serious defect in the SGLI program is that the available insurance coverage is inadequate to meet the needs of servicemembers. The insurance need of servicemembers closely coincides with that of his civilian peers. Relatively little insurance is needed in the late teens when the individual is single and without dependents. The insurance requirements increase as the servicemember takes on additional marital responsibilities and this gradually increases until his last child has completed college. The insurance requirement then diminishes to the protection of his spouse in her old age or to supplement their retirement objectives. The current maximum flat rate of $35,000 SGLI coverage does not provide the flexibility needed to meet the insurance requirements of military servicemembers.

It is recommended that an insurance program be established for military servicemembers similar to that provided other federal employees. Coverage is provided the government's civilian employees in Chapter 87 Title 5 U.S.C. called the Federal Employees Group Life Insurance (FEGLI) program.

That FEGLI program could be easily adapted for military servicemembers. The basic coverage could be computed using Basic Military Compensation to determine annual wage. The additional features of the FEGLI program which allow coverage

be carried into retirement beyond age 65, and limited dependent coverage are excellent provisions which should be included in the V.A. program.

Mr. Chairman, the current maximum insurance provided those who serve in our Uniformed Services is less than one-half as much as the insurance options provided the lowest (GS-1) civilian employee. I might add that the Federal civilian employees' insurance is partially subsidized by the federal government. We suggest that the Veterans Administration adopt a similar plan for the military which would be actuarially neutral with the exception of the administrative costs. Rates could be established to insure a reserve fund to reflect the added cost factors of military service and wartime risk.

The current Veteran's Group Life Insurance (VGLI) could be modified easily to adopt to the new insurance program for a 5 year transition period following release from active duty. Retirees would not be authorized to participate in the VGLI program, but, would continue coverage in the basic SGLI program similar to that of the federal civilian retirees. A provision should be incorporated in the new program to authorize the payment of premiums through the military allotment system until reaching age 65.

Mr. Chairman, recent changes in the Social Security laws have reduced benefits for survivors when the youngest child reaches age 16. This generally causes a gap in the income protection of the survivors of those who die on active duty. At recent hearings before this subcommittee, I suggested that these gap years be addressed by the Dependency and Indemnity Compensation (DIC) program also administered by the Veterans Administration. Many servicemembers plan that the benefits of V.A. insurance be used to fill in thses gap years. The social Security law change has increased this gap in most instances by an additional 2 years. The current $35,000 maximum (SGLI) coverage fails to meet the increased insurance needs. It is, therefore, recommended that this committee favorably consider legislation to provide an insurance program similar to that of other Federal employees with the required protection and flexability needed. The program I have recommended would be totally paid for through an actuarially neutral formula which can easily be obtained through historical evaluation of the current Civil Service FEGLI program.

Thank you, Mr. Chairman, this concludes my testimony and I will try and answer any further questions the members may have.

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C., October 5, 1983.

Mr. S. W. MELIDOSIAN,
Director, Veterans' Administration Regional Office and Insurance Center,
5000 Wissahickon Avenue, Philadelphia, Pa.

DEAR MR. MELIDOSIAN: Would you please answer for the record of the Subcommittee on Compensation, Pension and Insurance of October 4th the following questions:

1. Does your actual experience with the mortgage housing insurance in the case of severely disabled veterans who have specially adapted housing indicate that your actuary expectations were pretty much on target?

2. Does your experience with mortgage protection insurance on veterans who have specially adapted housing indicate that it would be very expensive for the Federal Government to assist in providing such insurance for veterans rated totally disabled for service-connected conditions but not qualified for specially adapted housing?

Your cooperation is appreciated.

Sincerely,

BOB MCEWEN.

VETERANS' ADMINISTRATION,
REGIONAL OFFICE AND INSURANCE CENTER,
Philadelphia Pa., November 2, 1983.

Hon. BOB MCEWEN,
House of Representatives, Washington, D.C.

DEAR MR. MCEWEN: We are pleased to reply to your letter of October 5, 1983, for the official record as part of the insurance hearings held before the Subcommittee on Compensation, Pension and Insurance of October 4, 1983.

The Veterans Mortgage Life Insurance (VMLI) program was instituted in 1971 to provide mortgage protection life insurance for seriously disabled veterans who have received grants for specially adapted housing. Veterans eligible for housing assistance grants are principally service-connected quadriplegics, paraplegics and others

who require the use of a wheelchair. As of October 1983, there were 5,993 veterans in receipt of VMLI protection, representing over $173 million in coverage.

Under the law, premiums paid by insured veterans are based on standard mortality with the Government bearing the costs of administrative expenses and excess mortality attributable to the veterans' disabilities. Government contributions to the VMLI program are made from the appropriation for Compensation and Pension.

At the time VMLI was established, it had been estimated by the Insurance Activity's Actuarial Staff that the premiums paid by the insured veterans would account for only 10 percent of the cost of the program. However, actual experience has been that the premiums are paying about 25 percent of the program's costs, with the remaining 75 percent being borne by the Government. Through Calendar Year 1982, premiums collected have totaled $9.2 million, while the Government contributions have amounted to $27.7 million.

Regarding your second question, we are of the opinion that expanding the VMLI program to veterans rated totally disabled for service-connected conditions, but not qualified for specially adapted housing, would require substantial Government contributions. Based on the following assumptions, we estimate that the annual subsidy could amount to $70 million.

Through September 1983, there have been only 18,616 specially adapted housing grants awarded since the program was started in 1948. Consequently, the number of veterans potentially eligible for VMLI coverage is quite small. However, opening up the program to all veterans totally disabled due to service-connected conditions would substantially increase the number eligible; if we assume that, at a minimum, all 100 percent service-connected disabled veterans would be considered eligible. Currently, there are 221,814 veterans in receipt of 100 percent ratings from the VA.

In arriving at our estimate of an additional $70 million subsidy, we assumed that one-half of those veterans with a 100 percent service-connected disability would apply and that the new group would have substantially the same mortality experience as those currently insured under the VMLI program.

We thank you for the opportunity to comment on this matter and we, of course, would be pleased to provide the Committee with any additional information you may require.

Sincerely yours,

S. W. MELIDOSIAN, *Director.*

REMARKS BY HON. CHALMERS P. WYLIE

I want firstly to be among those who congratulate Mr. Melidosian on his many years of service to the Veterans Administration and to the veterans of this Nation. Every person in the Federal civil service should try to emulate his excellence. In my years on the House Veterans' Affairs Committee, I have appreciated his many appearance before us. He has always been most helpful and it has been my observation over the years that this particular program of the VA has been in extremely good hands.

Mr. Chairman, I am sure our witnesses this morning from the veterans organizations will assist us with our oversight responsibilities on GI insurance. I want to carefully consider any suggestions that they might have.

Thank you, Mr. Chairman.

STATEMENT OF HON. JOHN PAUL HAMMERSCHMIDT

The multibillion-dollar program of various kinds of insurance for veterans and servicemen which is the subject of today's hearing certainly merits the oversight hearing which you have scheduled for this morning. I am confident that we will hear testimony which will indicate that the program is generally working very well and that it is being administered well.

It has been my observation, Mr. Chariman, that while the insurance activity of the VA may on occasion need some legislative fine tuning, that it has been administered in an exemplary way. This is due in no small way to the outstanding ability of Mr. Mel Melidosian and I certainly want to associate myself with the comments of Mr. McEwen, the ranking member of this subcommittee, with respect to Mr. Melidosian—he is an individual that makes all of us proud of the Federal public service. It has been my privilege to know him for many years and to count him as a friend.

Thank you, Mr. Chairman.

STATEMENT OF JAMES N. MAGILL, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Chairman and members of the subcommittee, thank you for the opportunity to present the views of the Veterans of Foreign Wars of the United States with respect to the Veterans Administration insurance programs.

Mr. Chairman, the various insurance programs administered by the VA have been, for the most part, very well received in providing low cost family protection to veterans who elect to participate in such programs. This Subcommittee is to be commended for its insight and efforts in monitoring and making the necessary improvements in the VA insurance program thus contributing to its continued success. The VFW appreciates the opportunity afforded us at this time to make suggestions we believe will further enhance the program.

We are still receiving complaints from Vietnam era veterans, with respect to the life insurance available to them. Unlike the veterans of World War I, World War II and the Korean War who could convert their Government Life Insurance provided by the VA from term to permanent life, Vietnam veterans have only the option of converting their Serviceman's Group Life Insurance (SGLI) to Veterans Group Life Insurance (VGLI) for a five year term at which time they must convert this insurnace to a permanent commercial plan at increased rates. We believe and recommend to this Subcommittee that Vietnam veterans be able to receive on a continuing basis low cost insurance as was afforded their predecessors. Attached to my statement for your review is a copy of our current Resolution entitled, "GI Life Insurance for Vietnam Veterans."

Mr. Chairman, another area in which we have received complaints is in respect to mortgage insurance for certain disabled veterans. In many cases veterans suffering from a service-connected disability, and who are not entitled to specially adapted housing, cannot obtain mortgage protection life insurance other than at high risk, high rate permiums. All too frequently these rates are not within their financial capability. In order to be in the position to afford their survivor the security of a mortgage free home, we most certainly would support the introduction and passage of legislation providing relief from higher mortgage insurance premiums for these veterans. Also attached to my statement for your review is a copy of our current Resolution entitled, "Mortgage Insurance for Disabled Veterans."

Mr. Chairman, although not mandated by resolution, the VFW would, at this time, like to again bring to your attention a problem being experienced by older veterans who have continued to renew their five year level premium term insurance and are now faced with exceptionally high premiums. These veterans are in a frightening situation where they cannot afford the high premiums, nor do they want to abandon their policy thus denying their survivors some financial security. In many cases, this type of policy is the sole coverage held by these veterans. We believe this emotional issue could be resolved by capping or freezing the veterans premium payments at age 65. We recommend 65 years in as much as this is the age most retirement programs commence and veterans find themslves on reduced and fixed incomes. It is our sincere hope the VA shares our concern and will consider our suggestion in a compassionate manner to assist our older veterans.

Mr. Chairman, again the VFW appreciates yours and this Subcommittee's continued concern and commitment to provide substantive and practical benefits for our nation's veterans.

This concludes my statement. I will be happy to respond to any questions you may have.

Resolution No. 618

GI LIFE INSURANCE FOR VIETNAM-ERA VETERANS

Whereas, subsequent to World War II, and the Korean Conflict, various insurance plans were made available to veterans through the Veterans Administration; and

Whereas, no such plans have been made available to Vietnam-era veterans generally; now, therefore

Be it resolved, by the 84th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and passage of legislation that makes available to Vietnam Veterans similar insurance plans as were made available to veterans of earlier conflicts.

Adopted by the 84th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 12-19, 1983.

Resolution No. 619

MORTGAGE INSURANCE FOR DISABLED VETERANS

Whereas, veterans, because of their service-connected disabilities, may be denied mortgage life insurance protection by being classified as uninsurable by commercial insurers; and

Whereas, veterans, because of their service-connected disabilities, may be required to pay higher premiums for such insurance; and

Whereas, only veterans who are entitled to specially adapted housing are currently eligible for such insurance assistance; and

Whereas, we believe that service-connected veterans should not be required to pay higher premiums or be denied such insurance protection for the benefit of their families; now, therefore

Be it resolved, by the 84th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and passage of legislation that will provide for relief from higher insurance premiums or for mortgage life insurance for service-connected disabled veterans.

Adopted by the 84th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 12-19, 1983.

STATEMENT OF BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America I wish to thank you for this opportunity to present the views and concerns of PVA regarding Veterans Administration insurance programs. I am Bob Moran, PVA Associate Legislative Director.

The insurance programs administered by the Veterans Administration have long served as a necessary resource for many veterans (particularly severely disabled veterans) who otherwise would not have access to commercial insurance. The maximum levels for some of these insurance programs have not been increased in recent years and the effects of inflation have reduced their efficacy. For veterans to be well-served by these programs, VA insurance coverage must reflect the prevailing economic conditions of the nation: they need to be increased to levels comparable to those offered through commercial insurance providers.

NATIONAL SERVICE LIFE INSURANCE (NSLI)—RH POLICIES

"RH" insurance is a special type of National Service Life Insurance (NSLI) which is available to veterans with service-connected disabilities. Any service-connected veteran released from active duty on or after April 25, 1951, under other than dishonorable conditions is eligible to apply for this insurance. Good health, except for the service-connected disability, is a requirement. RH insurance is issued in amounts from $1,000 to $10,000, and the veteran cannot purchase any other insurance under any other federal government life insurance program which would total more than $10,000. PVA's concern is with the low amount of insurance coverage provided under this type of policy. It must be kept in mind that it is this same service-connected disability that hinders the veteran from purchasing insurance from commercial companies at a reasonable premium.

Commercial insurance companies estimate the appropriate amount of insurance protection required by an individual by using factors of age, life expectancy, number of dependents and annual earning capacity. By using these factors, the dollar value of insurance necessary to provide for adequate protection is derived. The maximum amount of $10,000 V.A. insurance is not sufficient to meet today's obligations when compared to the recommendation of private insurers.

For a spinal cord injured veteran, using the criteria established by private insurers, adequate coverage should be $100,000. This is based on a veteran aged 42, married with two children, life expectancy of 69; with an average monthly compensation of at least $1,400. The total family protection is recommended to be at least $100,000. This amount is developed by using the insurance industry's formula of taking the average annual income and multiplying by a factor of six. For the above veteran using this formula, the total family protection should be at least $102,000.

It is apparent that a policy designed some 30 years ago is inadequate today. It has not been increased to offset rising economic factors, and it does not permit the catastrophically disabled veteran the opportunity of providing long-term fiancial security.

PVA strongly recommends that this subcommittee consider raising the NSLI RH policies from the maximum of $10,000 to $50,000. Because of the importance of this issue, the Board of Directors of PVA recently passed a resolution declaring this increase as one of its highest priorities.

An alternative to raising the maximum amount provided by the V.A. would be to allow eligible veterans the opportunity to purchase additional amounts of insurance protection.

A one year open enrollment period to allow veterans to purchase additional RH insurance in increments of $10,000, up to an additional $90,000. The $10,000 offered the veteran by the V.A., with the veteran's purchase of $90,000, would give a more realistic insurance coverage of $100,000, more in keeping with coverage recommended by commercial insurance companies.

This alternative would add minimal administration costs of the V.A., yet, allow those veterans who need more protection the opportunity to provide needed security for their families.

VETERANS MORTGAGE LIFE INSURANCE (VMLI)

Another concern of PVA is the Veterans Mortgage Life Insurance Program (VMLI). This type of insurance became available on August 11, 1971, through Public Law 92-95. A program of group-type mortgage life insurance for those veterans who have granted or will be granted a specially adapted housing grant under authority of Chapter 21, Section 802, Title 38 United States Code was established.

VMLI provides mortgage insurance for severely disabled veterans who would not otherwise be able to obtain coverage because of their medical conditions. The present maximum coverage was increased to $40,000 through provision of Public Law 94-433, effective October 1, 1976. Protection is automatic for the amount of the mortgage, up to the maximum of $40,000, unless eligible veterans decline in writing or fail to respond to a final request for information on which their premium can be based. Premiums are automatically deducted from VA benefit payments or paid directly, if the veteran does not receive compensation. The policy remains in effect until the mortgage, up to the maximum $40,000 has been liquidated, or the home is sold; or until the veteran reaches 70 years of age, or dies. If a mortgage is disposed of through liquidation or sale of the property, any unused portion of the mortgage/life insurance policy may be used on the mortgage of a subsequent home.

VMLI is made available to those veterans who qualify under Section 801, Title 38, United States Code, which provides eligibility for those veterans entitled to compensation for permanent and total service-connected disability.

(1) due to the loss, or loss of use, of both lower extremities, such as to preclude locomotion without the aide of braces, crutches, canes, or a whellchair, or

(2) which includes (A) blindness in both eyes, having only light perception, plus (B) loss, or loss of use of one lower extremity, or

(3) due to the loss, or loss of use, of one lower extremely together with (A) residuals of organic disease or injury, of (B) the loss, or loss of use of one upper extremity, which so affect the functions of balance or propulsion as to preclude locomotion without the aide of braces, crutches, canes, or a wheelchair.

This strict criteria for veterans to obtain VMLI limit the eligibility to a relatively small number of veterans. Consequently, the cost to the government is not great.

Mr. Chairman, PVA believes the cost factors involved in new home construction or purchase of existing housing are well known to all Members of the Subcommittee. A brief summary of the escalating cost of housing is provided below:

Average cost	Adapted house	VA grant	VMLI
1976	$57,789	$25,000	$40,000
1982	90,000	32,500	40,000

Source: Veterans' Administration.

Mr. Chairman, while the figures themselves provide evidence of the cost involved, it is clear that VMLI is not keeping pace with today's economic situation.

The following illustration shows that a veteran who buys a specially adapted house, utilizing the maximum amount of the VA grant and the maximum amount of VMLI, cannot be assured of providing mortgage-free housing for his spouse and dependents upon his death.

Today's average cost

Adapted home cost	$90,000
VA grant	32,500
Mortgage	57,500
VMLI	40,000
Unprotected mortgage	17,500

PVA advocates that VMLI maximum coverage be increased to $60,000 to more accurately reflect the increased amount of mortgage which is likely to remain after the veteran's death. PVA continues to receive correspondence from widows who are forced to sell the family home when faced with a high mortgage, increased taxes, and a drastically lower Dependence and Indemnity Compensation payment upon the death of the veteran.

Mr. Chairman, in conclusion I wish to reiterate PVA's concern. First, we believe that "RH" National Service Life Insurance (NSLI) should be increased by one of the alternatives PVA has suggested to reflect the current requirements for providing adequately for a veteran's survivors. We recommend either raising the maximum amount from $10,000 to $50,000 or providing the veteran the opportunity to purchase an additional $90,000 in coverage. Second, Veterans Mortgage Life Insurance (VMLI) should be increased from $40,000 to a maximum of $60,000, to reflect the rising cost of housing and allow our nation's severely disabled veterans a sufficient coverage to provide adequately for their families.

Mr. Chairman, this concludes my testimony. I will be glad to answer any questions that I can.

STATEMENT OF STEPHEN L. EDMISTON, ASSOCIATE DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. Chairman and members of the subcommittee, on behalf of the nearly 800,000 members of the Disabled American Veterans, we appreciate this opportunity to present our views on the various Veterans Administration insurance programs.

Before proceeding with my statement, Mr. Chairman, I wish to commend you for holding these hearings and for keeping a watchful eye on the effectiveness of these important programs. I wish to further compliment you and the members of the Subcommittee for your continual efforts to enhance veterans' insurance benefits.

VA LIFE INSURANCE PROGRAMS

Presently, Mr. Chairman, there are six government life insurance programs which are operated by the Veterans Administration. United States Government Life Insurance (K insurance) referred to as USGLI was established by Congress in May, 1919 for the conversion of War Risk Insurance ("T" policies—a yearly renewable term insurance made available to veterans who served on active duty between October 6, 1917 and June 7, 1924) to permanent plans. The World War Insurance Act of 1924 provided that servicemen who served in the Armed Forces between October 1917 and July 1921 were eligible to apply for USGLI. A five year renewable term plan became available under the "K" program on June 2, 1926 and all yearly renewable term policies were terminated on July 2, 1927. Eligibility under the USGLI program ended on April 25, 1951.

The National Service Life Insurance Act of 1940 was originally established on October 8, 1940 for servicemen of World War II. Under this Act, five-year level premium term policies were issued from October 8, 1940 to October 1, 1948. As each term policy was converted to a permanent plan or renewed for a new term plan after September 30, 1948, a "V" prefix was assigned to each policy. "V" policies constitute the largest of all VA insurance programs.

The third program provides insurance to veterans identical to "V" policies except that no dividends are payable. These policies are prefixed with the letter "H" and this insurance was issued or reinstated to veterans who were unable to meet the good health requirements under the "V" program because of service-incurred disabilities.

Policies issued under the Veterans Special Life Insurance Program were prefixed with the letters "RS" and were made available to Korean veterans at the time of their separation from service. Insurance under this program was first issued as a five-year level premium term and as these policies were converted to permanent plans, "FV" and "W" prefixes were assigned for filing purposes. These policies began to earn dividends in January 1975.

The fifth program, Service Disabled Veterans Insurance, is prefixed with the letters "RH". This is the only life insurance program currently available to veterans and these policies do not participate individends.

Veterans Reopened Insurance was the last program of VA insurance made available for World War II veterans. A one year period, May 1, 1965 through May 2, 1966, as provided for service-connected disabled World War II veterans (who were eligible for NSLI after October 7, 1940 and before January 1, 1957) to apply under the Veterans Reopened Insurance Program.

Policies assigned under this program were given three sets of prefixes starting with letter "J". The "J" prefix was assigned to policies which were issued to veterans who had a service-connected disability but who were otherwise in good health. The "JR" prefix was assigned for policies issued to veterans who were uninsurable because of service-connected disability and who were otherwise in good health. The "JS" prefix was assigned to policies which were issued to veterans who could not buy commercial insurance because of a nonservice-connected disability.

While most World War II veterans were eligible for "J" insurance, the record shows that a majority of these veterans were "priced out" of the VA insurance market. Even though service-connected disability was removed as a "bar" to insurance coverage, the high premium cost—based on disability and age factors—was prohibitive. Therefore, fewer than 3 percent of those who were eligible under the "J" program actually purchased the insurance.

In 1977 it was determined there were sufficient funds available to pay all future claims for those insured with a "JS" policy and, as of October 1977, all policies in this group were declared fully paid.

VGLI AND SGLI

As you know, Mr. Chairman, the Veterans Insurance Act of 1974 (Public Law 93-283), among other things, increased the maximum coverage of SGLI from $15,000 to $20,000 for all active duty members of the Uniformed Services and established the Veterans Group Life Insurance Program (VGLI). Subsequently, Public Law 97-66 increased the maximum coverage under these programs to $20,000 for VGLI and $35,000 for SGLI.

Under VGLI, servicemen who are covered by Servicemen's Group Life Insurance (SGLI) have 120 days in which to convert their SGLI to the Veterans Group Life Insurance Program—a five year nonrenewable term policy. At the end of the five year period, such insured veterans must apply to commercial insurance companies for conversion to a permanent plan of insurance. Participating insurance companies are required to provide coverage at standard rates without regard to a veteran's health.

Mr. Chairman, the Veterans Group Life Insurance Program, established in August 1974, was designed to encourage younger Vietnam Era veterans to maintain the insurance they had purchased under the SGLI program. This incentive was provided by allowing recently discharged veterans up to a period of five years to convert the insurance they had purchased while on active military duty to private commercial policies.

MORTGAGE PROTECTION LIFE INSURANCE

Mr. Chairman, Section 806 of Title 38, U.S. Code authorizes the Administrator to purchase from commercial life insurance companies Mortgage Protection Life Insurance policies, on a group basis, for those service-connected veterans who have purchased housing under Section 801(a), Title 38, U.S. Code—the VA Specially Adapted Housing Program.

Under present law, such permanently and totally disabled service-connected veterans are granted Mortgage Protection Life Insurance not to exceed $40,000 or the amount of the mortgage, whichever is the lesser amount. The maximum insurance liability is reduced as the mortgage is amortized and is only available to the holder of the mortgage. No insurance is payable if the mortgage is paid off prior to the death of the veteran or if the veteran is age 70 or older.

Generally, such Veterans Mortgage Life Insurance is provided to these severely disabled veterans on a cost-sharing basis—with the federal government covering the

increased cost of such insurance which is based on the veteran's service-connected disability.

As I stated previously, Mr. Chairman, the $40,000 Mortgage Protection Life Insurance is only available to eligible service-connected veterans who have purchased a home under the VA Specially Adapted Housing Program. All veterans participating in the Specially Adapted Housing Program are advised of their eligibility for Veterans Mortgage Life Insurance.

However, very few veterans are aware that additional remaining eligibility for such coverage is available to them if they relocate or move into another home within their community. In this connection, we believe that the Veterans Administration should be required to advise all eligible veterans of any remaining entitlement to Mortgage Life Insurance upon the resale of their home or termination of an existing Mortgage Protection Life Insurance Policy.

As you know, reduced entitlement to Veterans Mortgage Life Insurance is currently computed in one of two ways:

1. If Mortgage Protection Insurance is granted on a home loan of less than $40,000, remaining eligibility is established by subtracting the amount due on the loan upon the sale of the home from the original home loan amount, this amount is then subtracted from the original entitlement of $40,000;

Example:

Original loan	$19,000
Less loan payoff upon sale	17,000
Used-up entitlement	2,000
Original entitlement	40,000
Less previously used entitlement	2,000
Remaining eligibility	38,000

2. If Mortgage Protection Insurance is granted on a home loan of more than $40,000, the full amount of insurance remains in force until the mortgage loan is reduced below $40,000. At that time, remaining eligibility for Mortgage Life Insurance is computed by reducing the full amount of VA insurance ($40,000) dollar for dollar as the amount of the mortgage loan is reduced below $40,000.

Example:

Original loan	$48,000
Loan payoff upon sale	36,000
Original entitlement	40,000
Less loan payoff upon sale	36,000
Used-up entitlement	4,000
Original entitlement	40,000
Less previously used entitlement	4,000
Remaining eligibility	36,000

As statistics show that the average homeowner purchases a new home approximately every seven years, we believe that many of these seriously disabled service-connected veterans would greatly benefit if they were properly advised of their entitlement under the Veterans Mortgage Life Insurance Program.

In addition, considering the success of the VA Mortgage Protection Life Insurance Program and the restoration of full entitlement principle which exists in the VA Home Loan Guaranty Program, we believe that the Subcommittee should consider legislation which would provide restoration of full insurance benefits ($40,000) under the Veterans Mortgage Life Insurance Program to this category of severely disabled veterans.

The DAV believes that such a liberalization could be made at a comparatively low cost since VA statistics show that there are just over 6,000 active cases under the Veterans Mortgage Life Insurance Program. In addition, the enactment of such legislation would extend an extra measure of security for such permanently and totally disabled service-connected veterans and their families.

In discussing the Veterans Mortgage Life Insurance Program, Mr. Chairman, we feel compelled to comment on legislation presently pending before this Subcommittee. I refer to H.R. 461, introduced by you, Mr. Chairman, at DAV request. This measure would extend VA Mortgage Protection Life Insurance to service-connected

veterans rated permanently and totally disabled—but who are not eligible under the VA Specially Adapted Housing Program as outlined in Section 801, title 38, U.S. Code.

Aside from the fact that such legislation would be a compassionate gesture, recognizing the sacrifices of totally disabled service-connected veterans, the enactment of such legislation would greatly benefit such severely disabled veterans who, because of their service-connected disabilities, cannot purchase mortgage insurance from commercial insurers at any cost.

Mr. Chairman, in enacting Public Law 92-95, which created the VA's Mortgage Life Insurance Program, the Veterans Administration pointed out in testimony that:

Few, if any, of these veterans can obtain Mortgage Protection Life Insurance from commercial sources. These veterans have suffered greatly and deserve our most sympathetic understanding and consideration. Viewing these facts alone, the bill would appear to warrant favorable consideration.

Again, the enactment of H.R. 461 or a similar measure would provide additional security for the families of service-connected veterans rated as permanently and totally disabled. We believe that such severely disabled veterans, because of their service-connected disabilities, are excluded from the commercial life insurance market and because of the nature and extent of their disabilities, they may not have accumulated the savings necessary to insure financial security for their families.

Recognizing this, the delegates to our 1983 National Convention adopted the following resolution (No. 425) placing our organization on record as strongly supporting the enactment of legislation which would extend VA Mortgage Protection Life Insurance to service-connected veterans rated permanently and totally disabled.

TO EXTEND ELIGIBILITY FOR VETERANS MORTGAGE PROTECTION LIFE INSURANCE TO SERVICE-CONNECTED VETERANS RATED PERMANENTLY AND TOTALLY DISABLED

Whereas, the VA Mortgage Protection Life Insurance is presently available to veterans entitled to the special adapted housing assistance under Title 38, U.S. Code; and

Whereas, service-connected veterans rated permanently and totally disabled cannot obtain Mortgage Protection Life Insurance through commercial insurance companies; and

Whereas, their widows and dependents must bear an undue hardship upon the death of such veterans; NOW

Therefore, be it resolved that the Disabled American Veterans in National Convention assembled in Los Angeles, California, July 31 through August 4, 1983 seeks the enactment of legislation which would extend VA Mortgage Protection Life Insurance to service-connected veterans who are rated as permanently and totally disabled.

Mr. Chairman, we wish to make one final point regarding the VA's Mortgage Protection Life Insurance Program.

Section 806, Title 38, U.S. Code provides, among other things, for the termination of Mortgage Protection Life Insurance whenever one of the following first occurs:

1. Satisfaction of the veteran's indebtedness under the loan upon which the insurance is based;
2. The veteran's 70th birthday;
3. Termination of the veteran's ownership of the property securing the loan;
4. Discontinuance of payment of premiums by the veteran; or
5. Discontinuance of the entire contract or agreement.

Most of the reasons set forth in this Section for the termination of Mortgage Protection Life Insurance are understandably necessary. However, we are quite concerned with the requirement that terminates a benefit to severely disabled service-connected veterans solely because of age.

Quite frankly, Mr. Chairman, we believe this provision of Title 38, U.S. Code has created an anomaly that unfairly treats similarly situated severely disabled service-connected veterans in a dissimilar manner in the award of benefits. Nowhere else in Title 38, U.S. Code do we find a provision that links age as a factor in the award or discontinuance of benefits provided to service-connected disabled veterans.

Since this situation was recently brought to our attention, Mr. Chairman, we do not have an official mandate on this subject. However, because of the serious impact this provision of law has had upon certain service-connected disabled veterans and their families, we strongly urge you and the members of the Subcommittee to take the necessary steps to correct this anomaly. Furthermore, we believe any change to

correct this inequity should be made retroactively, thereby enabling those who have lost entitlement to Mortgage Protection Life Insurance because of age, the opportunity to reapply for this coverage.

That concludes my statement, Mr. Chairman. I again wish to thank you and the members of the Subcommittee for inviting the DAV here today to discuss these important issues.

○